Accountancy

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The Society of Incorporated Accountants and Auditors

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Professional Notes

Taxation of Trade Profits

THE TECHNICAL COMMITTEE ON THE TAXATION OF TRADE PROFITS, PROMISED BY the Chancellor in his Budget speech, has now been formed, under the chairmanship of Mr. J. M. Tucker, K.C. Its full terms of reference are:

> To inquire into the method of computing net trade profits for the purpose of charging them to income tax and to consider the question of the basis period to be taken in assessing the tax on the profits so ascertained; to inquire into the method of computing net profits for the purpose of charging them to profits tax; and to report upon any alterations of the tax law which may be desirable.

The members of the committee are: Mr. W. S. Carrington, member of the council of the Institute of Chartered Accountants; Sir John J. Cater, formerly Chief Inspector of Taxes; Mr. H. Weston Howard, chairman of the Eastern Regional Board for Industry; Mr. W. W. Shepherd, chairman of Turner & Newall, Limited; and Mr. George Woodcock, assistant general secretary of the Trades Union Congress.

Although the committee will be merely breaking the ground for the full-scale inquiry into the incidence of the taxation of industry which the Chancellor foreshadowed, it has wider terms of reference than had been anticipated. There seems no reason why it should not investigate, for example, the question whether depreciation should be allowed for tax purposes on more than an historical cost basis. It can examine how profits tax might be assimilated in the greatest practicable degree to income tax. The numerous respects in which tax assessing needs modification if there is to be an approximation of tax profits to accounting profits, as urged for a long time by the accounting profession, will no doubt be investigated at length. It is encouraging, also, that the committee is specifically charged with considering the question of the basis period to be taken for income tax, and to recommend alterations in the tax law.

The Secretary of the committee is Mr. E. R. Brookes, Secretaries' Office, Inland Revenue, Somerset House, London, W.C.2.

Proposed Control of Business and Professional Premises

Further safeguards for tenants of trade and business premises are proposed by the Uthwatt Committee in their Interim Report on Tenure and Rents of Business Premises. No legislation of a permanent nature is at present contemplated, however, the proposals of the Committee being of a temporary character, limited to the life of the sellers' market in trade and business premises.

Any legislation on the lines of this report would be complementary to the Landlord and Tenant Act, 1927, and the Rent Restrictions Acts.

The Committee's proposals extend to all classes of premises, whether used for trade, business, or industry, or for professional purposes. Premises of a mixed character, which are used partly for such purposes and partly as a dwelling, would also come within the general scheme, unless they happen to be controlled by the Rent Acts. Such controlled tenancies, while outside the scheme, would nevertheless be granted an additional measure of security of tenure by amendments to the Rent Acts. Nor would the size of the premises, or the length of the tenancy, make any difference. All would be protected, with the exception of agricultural holdings, licensed premises, theatres, and new buildings erected after the date of the new legislation.

The main proposal is that security of tenure should be conferred on tenants of the premises referred to in the preceding paragraph. Rents as such

would not be controlled or pegged as they are under the Rent Acts. Individual rents would, however, in default of agreement, be fixed by the Tribunal, to whom application would be made for the renewal of the particular tenancies.

Every tenant would be regarded as having a *prima facie* right of renewal. This right could only be refuted by proof that the tenant was an undesirable tenant, or that the premises were reasonably required by the landlord for a scheme of demolition or rebuilding, or for a scheme of substantial remodelling or substantial physical development. In the case of tenancies already current at the time of the introduction of the legislation, the tenant would not be entitled to a renewal if the landlord reasonably required the premises for his personal occupation, and if, further, the circumstances were such that good cause could be shown why the tribunal should in its discretion refuse to grant a renewal.

Contracting-out would be forbidden, but once the scheme had become law it would be open to a landlord who was contemplating the grant of a lease to apply to the Tribunal in advance to authorise the exclusion of the tenant in whole or in part from the benefits of the legislation.

Once a lease had been renewed, only the tenant, or a member of his family claiming under his will or on his intestacy, would be entitled to apply for a further renewal; assignees or subtenants would not enjoy this privilege. The minimum period of renewal would be three years, and the maximum seven years. A weekly, monthly, or quarterly tenant who was not prepared to take a lease would be given a non-assignable tenancy for three years, and during this period the rent would not be subject to review. Renewals would otherwise be on the same terms as existing leases. The rent would be the ordinary rental, but without taking into account any increase due to goodwill, which a good landlord would require from a sitting tenant to whom preferential treatment was given.

Resale Price Maintenance

The report of the Committee on Resale Price Maintenance, published during June, makes a distinction between retail price maintenance by individual producers of branded goods and that by trade associations.

The Committee recommends that no action should be taken which would deprive the individual manufacturer of the power to prescribe and enforce resale prices for his branded goods. The main reasons for this recommendation are that the manufacturer, because he must try to preserve his market, and because he is responsible for the quality of the branded goods, must retain an interest in their distribution right up to the stage where they reach the public, and this interest should warrant his approving the retail price.

> Past experience appears to have shown manufacturers that if a nationally advertised brand is sold at varying prices in neighbouring shops, the demand for it—as reflected in the distributors' orders to the manufacturers—substantially decreases. . . . Many of our witnesses believed that, where an article is usually sold at the same price throughout the country and that price is well-known to the public, variations from the recognised price lead the customer to suspect that the quality has deteriorated.

However, the Committee considers that producers should not be permitted through resale price maintenance, and the associated conditions upon which goods are supplied to retailers, to prevent competition or obstruct new methods of trading. It recommends that Government should consult the national business organisations to consider how this recommendation can be implemented.

The Committee finds that collective price maintenance schemes by trade associations appear to have :

> led to the comprehensive regulation of competition in the distributive trades and to have impeded the development of economical methods of trading and prevented the reduction of distributive costs and prices.

It therefore recommends making illegal the application of sanctions such as fines, reduction of discount terms, expulsion from membership, cutting-off of supplies of the products covered by the association—which extend beyond the remedies open to an individual producer for a breach of resale price maintenance.

The report appears not to follow through its own logic. Not what the Committee considers the excessive sanctions at the disposal of the trade associations, but what it regards as the undesirable results of the associations' resale price maintenance schemes, seem to be the logical target of its attack. To curb "excessive" sanctions will not necessarily prevent the "undesirable" results.

The chairman of the Committee was Mr. G. H. Lloyd Jacob, K.C. Mr. R. E. Yeabsley, C.B.E., F.C.A., F.S.A.A. (a member of the Council of the Society of Incorporated Accountants) was one of the Committee's members.

Coal Industry Nationalisation—Accountant Members of District Valuation Boards

A member of a District Valuation Board set up under the compensation provisions for the nationalisation of the coal industry may not take part in any particular case if he has personally done work for a party to the proceedings by way of preparing particulars of, or valuing, transferred interests in collieries, or in relation to a "severance case," unless all parties consent. The regulations laying this down are contained in S.I. 1949, No. 901, Coal Industry Nationalisation (Valuation) (Amendment) Regulations, 1949. The regulations, however, make an exception of certain work done by a member as an independent accountant, namely, work in connection with a district wages ascertainment or work on the entitlement of a colliery to a capital outlay refund, or on the measure of that entitlement.

A severance case arises where there is a claim for compensation under Section 17 of the Coal Nationalisation Act, 1946.

The Institute's Presidential Elections

Sir Russell Kettle, F.C.A., has been elected President of the Institute of Chartered Accountants. Sir Russell is senior partner in the firm of Deloitte, Plender, Griffiths & Co. He became an associate of the Institute in 1910, a fellow in 1924, and a member of the Council in 1940. A member of the important Cohen Committee on Company Law Amendment, Sir Russell is now Chairman of the Accountancy Advisory Committee on the Companies Acts of the Board of Trade.

The new Vice-President is Mr. Harold Garton Ash, O.B.E., M.C., F.C.A., a partner in the firm of James Edwards & Co., Chartered Accountants, of London. He was admitted an associate of the Institute in 1906,

became a fellow in 1919, and was elected to the Council in 1938.

Concentration in Public Administration

The sixty-fourth annual general meeting of the Institute of Municipal Treasurers and Accountants was held at Eastbourne on July 15 to July 17.

The President of the Institute, Mr. Henry Brown, O.B.E. (who is also a member of the Council of the Society of Incorporated Accountants) made administration the main theme of his address. He said the country was faced with a large and increasing cost for public administration. There were numerous separate offices for public services in any populous area : apart from the local authority, there were often centres for gas, electricity and hospitals, with a probability that water and transport would soon be added, as well as insurance offices, employment exchanges, food and fuel controls, and many similar agencies of the central government. These various local offices were supplemented in many county districts by departments of the county council for education, police, fire, ambulance, health, planning and similar services. Mr. Brown asked whether the country could afford such a variety of local centres and whether administration would not best be served by the whole coming within the jurisdiction of the local council, either as principal or as agent for some other authority. He suggested that such concentration at local levels would result in economy, both of manpower and money, and greater convenience to the public.

The Balance Sheet as an Acknowledgment of Debt

The Court of Appeal has recently decided that the inclusion of a debt in a balance sheet, even though it forms part of a larger sum shown as owing to unspecified persons, may in certain circumstances be a sufficient acknowledgment to take the debt out of the Statute of Limitations and revive the creditor's right of action. A full report of the case is not yet available but from the summary which appeared in *The Times* for June 16 it would appear that the case was expected to be considered of importance to companies, though the Lord Chief Justice emphasised that he was deciding it only on its particular facts. Those appear to have been that a creditor, who was also a shareholder, had lent various sums of money to a company in 1936 and 1937. At an annual meeting of the company, held on December 31, 1946, accounts were presented in which were disclosed amounts owing to creditors in each of the years covered by the accounts. The particular debt owing to the plaintiff —the creditor who was also a shareholder—does not seem to have been segregated in the balance sheet but to have been included under some such general description as sundry creditors, composed of many items. The plaintiff attended, as a shareholder, the annual meeting at which the accounts, which appear to have been signed by accountants as agents for the company, were presented. From the report of the case in the lower Court (Jones v. Bellegrove Properties, Limited, 1949, 1 All E.R. 498), it appears that oral evidence was admitted that the debt was included in the total of debts shown in the balance sheet. The four requirements to constitute an acknowledgment sufficient to revive a debt are : first, it must be an acknowledgment ; secondly, it must be in writing; thirdly, it must be signed by the debtor or his agent ; and fourthly, it must be made to the creditor. These requirements, the Lord Chief Justice, Lord Justice Tucker, and Lord Justice Singleton considered, had been met, and the appeal of the defendant company was accordingly dismissed. The full report will be studied with interest for any light it may throw on the importance in the case of the balance sheet nomenclature and on the question in what circumstances publication in the accounts can revive a liability.

Re-payments of Tax

An article appeared in our May issue (pages 119-120) on the case *Sebel Products, Ltd.* v. *Commissioners of Customs and Excise*, where the issue was whether tax paid by the company was paid under a mistake of law and was therefore irrecoverable from the authorities.

The Chancellor of the Exchequer was asked in the House of Commons recently whether he had come to a conclusion on the observations of Mr. Justice Vaisey in the case, and whether he would indicate his future policy on the retention by the Crown of tax paid under a mistake of the law. The Chancellor replied that the Judge had expressed the view that there was no reason why, in appropriate cases, the Crown should not refuse to repay money paid voluntarily under a mistake of law, but gave his reasons for thinking that it was a defence that ought to be used by a Government Department with great discretion. Sir Stafford Cripps added that the Government endorsed the view of Mr. Justice Vaisey, which indeed accorded with the practice generally followed by Departments in the past. The Treasury was issuing a circular to ensure that the practice of Departments continued to conform with it in the future.

It is indeed to be hoped that only in the most exceptional circumstances will any Government Department, after the *Sebel Products, Ltd.* case, refuse to repay tax or other money paid to it under a mistake of law.

Institute of Cost and Works Accountants

At the thirtieth annual general meeting of the Institute of Cost and Works Accountants held on June 6, the President, Mr. G. C. Stone, F.C.W.A., said that since the war the number of members had increased by a third, and the number of students had almost doubled. (The report shows that the totals in the two groups were 2,415 and 9,816 at the end of last year). The development of what Mr. Stone called " cost consciousness " and of an appreciation of the advantages of budgetary control and standard costing were creating a new demand for accountants capable of applying these advanced methods of management control.

Mr. Stone said that there should be a better understanding of the reasons which make profits necessary:

> It is the prospect of earning a profit, despite a realisation of the risk of loss, that brings most businesses into being, and provides the community with many essential services. There are over fifty thousand manufacturers and over half a million retailers in this country whose continuity in business is dependent on profits being earned.

In a competitive economy, he continued, failure to make a profit signified a waste of resources, a fall in tax for the State, and a risk of unemployment of labour.

Mr. Stone said that one of the sessions of the National Cost Conference, recently concluded, had been given up to the subject of cost consultancy. The consultants' section of the Institute's membership was small, but influential. The session at the Conference should help to make better known the advisory services of consultants.

Joint Accounts

A letter in a recent issue of *The Times* draws attention to the inconvenience caused by the failure of companies' secretaries, the Bank of England, and issuing houses, to set out full names and details of shareholdings in joint accounts. The correspondent states that it is still the general practice for circulars notifying redemptions, conversions, and offers of bonus shares, to be addressed "A. B. Brown and Others." He continues:

> As a result, a great deal of unnecessary work is occasioned in the offices of solicitors, accountants and branch banks, whose staffs, relying in many cases on personal recollection, are forced to spend many hours in tracing the accounts to which these notices relate.

Most practising accountants will echo this lament, and perhaps accountants who are company secretaries will take heed of it, though it must be recognised that a change in the existing practice is often precluded by circumstances, for example, where mechanised addressing machines are used and the names in joint accounts change from time to time.

Deferment of National Service

Important changes have been announced by the Ministry of Labour and National Service in the deferment rules applicable both to articled clerks and to bye-law candidates. Deferment for professional training may now be granted for a period ending almost on the applicant's 26th birthday. Men who have taken a university degree have hitherto been required to do their national service before undertaking the practical training for a professional qualification (e.g., accountancy, law, engineering). In future they will be able to obtain deferment to complete their professional training before they are called up.

Men will not normally be called up until the end of the school term (regarded as the period ending on December 31, April 19, or August 31) in which they attain the age of 18 years three months. Deferment may be granted to remain at school or other educational establishment to sit or re-sit an examination such as School Certificate, Higher School Certificate, University scholarship, or entrance or Intermediate Arts or Science.

Professional training must be commenced before the 18th birthday or within three months of the completion of full-time education. A man who left school before the age of 18 and entered into employment, but is subsequently offered facilities for professional training (e.g., articles) provided he can pass the necessary preliminary examination, may obtain deferment for this purpose up to his 20th birthday. A man who has already been given deferment to obtain a professional qualification by means of employment or apprenticeship combined with part-time study, will be granted deferment if he wishes to change to full-time study.

It is an overriding rule that no one will be allowed to pass out of liability for national service. Deferment will therefore not be granted to anyone to commence a course of training which could not be completed before his 26th birthday ; and anyone commencing training which will last beyond his 24th birthday will be required to sign a statement that he clearly understands that, whatever stage his training may have reached, he will be called up not later than the last call-up day before his 26th birthday.

Our Diamond Jubilee

On June 24, 1889, appeared the first issue of *The Incorporated Accountants' Journal*. With our present issue, then, the journal—the name of which was changed in 1938, is sixty years old. The first editorial note of the first issue, written by Sir (then Mr.) James Martin, read:

> In presenting the first number of the Society's Journal, we would remind our readers that its future will be very much in their hands. If the members continue to give their official organ hearty and consistent support it will develop from healthy infancy into hardy youth and flourishing manhood.

The members did not fail. The journal in its sixtieth year is indeed flourishing. In recent years in particular, however, the continued expansion in the circulation has not only been due to Incorporated Accountants, but to subscriptions from a wider field. We think the members of the Society will agree with our aim—to make ACCOUNTANCY such an authoritative and useful journal in its own field that not only members, but also non-members who are concerned with accounting and cognate subjects, will regard a subscription to it as an unavoidable (though small!) item of expense.

No record remains of the circulation in 1889, but it was undoubtedly exiguous. To-day it is well into five figures, and growing fast, so fast that the recent increase in the paper quota came just in time to avoid us embarrassment.

Perusal of the first issue of *The Incorporated Accountants' Journal* calls to mind the great growth in the size and importance of the Society which has also taken place in the sixty years. In 1889 there were 433 members; there are now 8,300. In the Society's examinations held in the first half of 1889 twenty-four candidates presented themselves; in the corresponding examinations in 1949 there were 1,307 candidates. The total income for the year 1888 was £878; last year it was £47,459.

If we survey a wider ground, the contrasts over the sixty years are equally striking. As an example, consider the public finances. In 1889, the Chancellor of the Exchequer was Mr. Goschen, famed for his successful conversion of Consols of the previous year. He presented a Budget showing estimated expenditure of £87 million for the year. Income tax remained at 6d. in the pound, to give a yield of £12.5 million. Faced with some shortage of revenue, Mr. Goschen " declined amid cheers to meet the balance by the easy method of adding a halfpenny to the income tax." The Chancellor " altogether dissented from the notion that the income tax was to be recklessly used, or was to be regarded as other than a great reserve. . . . " It would be superfluous to do more than set down at this point the following figures from the 1949 Budget—estimated expenditure, £3,308 million ; standard rate of income tax, 9s. 6d. in the pound; estimated yield of income tax and surtax, £1,595 million.

ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

The Annual Subscription to ACCOUNTANCY *is 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 0d., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.*

Consolidated Accounts

THE PROFESSION RECEIVES WELCOME assistance from a pamphlet, *Group Accounts in the Form of Consolidated Accounts*, issued by the Institute of Chartered Accountants. Consolidated accounts, as a form of presentation, have hitherto made only slow headway, so that there is no long-established practice on the many intricate questions they present. For this reason, the pamphlet does not express the official opinions of the Council of the Institute, but consists of notes by the Taxation and Financial Relations Committee. The Committee's notes appear to us to afford a solid foundation on which will be built the established technique which must inevitably be adopted by the profession in the comparatively near future, now that the Companies Act of 1948 has made consolidation of accounts an everyday affair.

Reference is made in the pamphlet to alternative methods of grouping fixed assets. One method is by aggregating the gross amounts shown in the individual balance sheets and deducting the total of the provisions for depreciation as similarly shown. The other is by taking the aggregate of the net amounts at the date of acquisition with subsequent additions and showing the total provision for depreciation since acquisition. The Committee expresses no preference for one method compared with the other.

The purchase price on the acquisition of a subsidiary is often determined after taking the fixed assets of the subsidiary at a value in excess of the book figure : in the subsidiary's books the purchase price may have been apportioned over the assets or they may have been left at the original cost less depreciation. The Committee deals with adjustments made necessary on consolidation where the subsidiary followed the latter procedure. It seems to us likely, however, that the majority of professional opinion would support the apportionment of the purchase price by the subsidiary.

There is reference to several questions which arise in the elimination of inter-company transactions, as where shares of a holding company are held by its subsidiary, where bonus shares are issued by a subsidiary, where there are balances on current accounts within the group, and where inter-company profits are made on stock-in-trade. The comments on inter-company indebtedness resulting from transactions which may have been effected after the dates of the balance sheets, where these are not co-incident, are pertinent. But perhaps insufficient is said about the advisability of showing separately the aggregates of debits and credits. Far too often is it thought that the balance on a current account necessarily represents a net indebtedness, one way or the other, whereas it may be that the balance represents the difference between a debt due and a debt payable which are not legally set off until final settlement of the balance.

The Committee does not omit to deal with the treatment of arrears at acquisition of dividends on cumulative preference shares not acquired by the group. For consolidation purposes the arrears at acquisition may be covered by a note only, or they may be added (less tax) to the " minority interests " at acquisition, with a resultant increase in goodwill or a decrease in the capital reserve at that time. If the first method is adopted, the Committee suggests that the payment of the arrears should be charged against the pre-acquisition reserve: if the payment be in excess of such reserve the difference should be placed against consolidated income and appropriately described. If the second course is followed, and the pre-acquisition reserves are less than the amount of the payment of the arrears, the excess should be treated as an allocation of consolidated income reducing the goodwill or increasing the capital reserve. This exemplifies that consolidation demands the application of some of the more advanced theories in accountancy.

The pamphlet closes with a paragraph on taxation, necessarily condensed but containing some apt comment. Taxation on profits arising in the United Kingdom should be calculated for consolidation in a manner consistent and uniform throughout the group. Profits of oversea subsidiaries are subject to the local taxes in force —sometimes including distribution tax —but in addition, when assessed under Case V, have to bear British income tax and profits tax on the dividends declared. The minimum liability to be provided in the consolidated accounts should cover the local tax on profits earned, the local distribution tax on profits of oversea subsidiaries taken to credit by the holding company, and the British tax. Anything put aside as reserve for taxes arising on the distribution of profits retained overseas should be treated in the same way as reserves for future British tax on profits earned here are normally treated. The Committee adds that where no such additional reserve has been set up, it may be desirable, where the amount is material, to indicate by a note to the accounts either the amount of the profits so retained that have not borne British taxation and local distribution tax, or the approximate liability to British taxation and local distribution tax that would be incurred if the retained profits were distributed to the holding company in this country.

It is stated that a limited number of prints of the pamphlet is available ; copies will be sent free of charge on application to the offices of the Institute.

Companies Act, 1948—XX

ANNUAL RETURNS AND RETURNS OF CHANGES

This article is the twentieth in a series on the new company law. The first, a general article on the Companies Act, 1947, appeared in our issue of September, 1947, and subsequent articles have dealt with the following special aspects :

II. Company Balance Sheet and Profit and Loss Account, etc.	*VIII. Articles of Association & Annual Returns.*	*XIV. The Winding-up of Companies.*
III. The Exempt Private Company.	*IX. Bookkeeping and Accounts.*	*XV. The Protection of Minorities.*
IV. Disclosure of Payments to Directors.	*X. Points to Note.*	*XVI. Board of Trade Investigations.*
V. Meetings.	*XI. Accounts of Holding and Subsidiary Companies.*	*XVII. Debentures.*
VI. Prospectuses.	*XII. Receivers and Managers.*	*XVIII. Penalties.*
VII. Auditors.	*XIII. Transfer and Transmission.*	*XIX. The Companies (Winding-Up) Rules, 1949.*

By F. D. HEAD, B.A., Barrister-at-Law

THE CONTENTS AND FORM OF THE ANNUAL RETURNS OF companies must differ since a company may be public or private and with or without a share capital. Part I of the Sixth Schedule to the Companies Act, 1948, states the contents and Part II sets out the form of the return required from companies with share capital (with which this article is mainly concerned). Section 124 deals with the return of companies with a share capital. Section 126 states the time for completion of the return ; Section 127 gives the documents to be annexed to it. (The return of a company without a share capital is dealt with in Section 125.)

RETURNS OF COMPANIES WITH SHARE CAPITAL

Deferring for consideration later the position of " exempt private companies," the requirements of Section 124 and its important proviso may be summarised, as follows. The annual return must give in the form set out in Part II of the Sixth Schedule information of the registered office, the registers of members and debenture holders, the indebtedness of the company, past and present members and directors and secretary. The proviso specifies a list of exceptions which will require careful study by company officials.

COMPANIES WITH SHARE CAPITAL—EXCEPTIONAL CASES

These exceptions must be detailed. To begin with, no annual return is required for the year of incorporation or for the following year (unless the Board of Trade require it under Section 131) (the same rule applies, under Section 125, to companies without a share capital).

Section 131 gives the Board of Trade, in case of default, the power to convene a meeting and

> where a meeting so held is not held in the year in which the default in holding the company's annual general meeting occurred, the meeting so held shall not be treated as the annual general meeting for the year in which it is held unless at that meeting the company resolves that it shall be so treated.

Sub-Section (4) is new and provides :

> where a company resolves that a meeting shall be so treated, a copy of the resolution shall, within fifteen days after the passing thereof, be forwarded to the Registrar of Companies and recorded by him.

As will be noted, the power previously held by the Court to call a meeting in default is now vested in the Board of Trade. Company secretaries may be interested to note that the Board of Trade can direct that one member of the company present in person or by proxy shall be deemed to constitute the meeting.

In connection with the powers of the Board of Trade, reference may be made to Section 153. The Board may think it desirable for a holding company or a holding company's subsidiary to extend the subsidiary's financial year so that it coincides with that of the holding company and so that the submission of accounts to a general meeting is postponed from one calendar year to the next. In such circumstances : " the Board may on the application or with the consent of the directors of the company whose financial year is to be extended " waive the submission of accounts and the holding of the meeting and an annual return shall not be required in the earlier of the calendar years.

" FOR THIS RELIEF . . ."

Several other concessions set out in the proviso to Section 124 will be welcomed by company officials. Thus a complete return is only required in the third year and a list of changes that have taken place in the previous two years will suffice. " Occupations " of past and present members need not be stated, thereby removing a useless requirement in these days of nominee shareholders. Companies which during the war were exempted from returning a list of members will find an exemption in proviso (*d*) as regards past members and shares transferred. Copies of entries in a Dominion register have to be sent here for inclusion in the duplicate of the register kept in this country. If received here too late for inclusion in the annual return, they must be included in the next or a subsequent return.

CONTENTS OF RETURN

Registered Office.—Notice of any change in the situation of the registered office must now be given to the Registrar of Companies within fourteen days after the change, instead of twenty-eight days. The inclusion in the annual return of a statement regarding the address of its registered

office is stated in Section 107 (2) not to satisfy this obligation. Accordingly if a change has taken place it must be notified within the specified fourteen days.

A change takes place when the company's share and registration work, as commonly happens, is undertaken by another person who acts as transfer and registration agent. The register of members would in that case be kept at the office of the agent. But the agent's office must be in England if the company was registered there, or in Scotland if the company was registered in Scotland.

As in the case of the register of members, the register of debenture holders can be kept either at the registered office or at the place where it is actually kept. Section 86 (3) requires notice of the place where it is kept " and of any change in that place."

Indebtedness of the Company.—Under the old law (Section 84 of the Companies Act, 1929) the Registrar was authorised to enter a memorandum of satisfaction where the debt for which the registered charge had been given had been satisfied. Section 100 of the new Act now extends this authority, and the memorandum of satisfaction can be entered if part only of the property or undertaking charged has been released.

Time Limit for Return.—Forty-two days instead of twenty-eight days is now allowed for completion of the return (Section 126).

Director and Secretary.—The return must be signed by a director and the secretary; a director cannot now sign in the dual capacity (Section 126). It will be necessary for a return to be made to the Registrar " of any change among its directors or in its secretary or in any of the particulars contained in the register, specifying the date of the change." Changes must be notified within fourteen days from their happening. Having regard to the scope of the particulars which the company must register, which include details of other directorships other than those specified in the proviso to Section 200, returns of changes will frequently have to be notified. Under the old law managers had to be registered. Section 200 is restricted to directors; managers will therefore not appear unless they are also directors.

If the company is one to which Section 185 applies (directors' retiring age) the date of birth of each director must be registered.

FILING OF ACCOUNTS AND EXEMPT PRIVATE COMPANIES

Section 127 requires a copy of the balance-sheet to be attached to the annual return, with other documents, of all companies both public and private. Section 129 enables a private company to obtain exemption from this onerous obligation to file its accounts. The exemption is only from the obligation to file the accounts, and the right of members and debenture holders to receive copies of the balance-sheet and auditor's report under Section 158 is unaffected.

The proviso to Section 129 (i) enables the directors to apply to the Board of Trade for exemption although the conditions in regard to being an " exempt private company " have not *always* been satisfied. If the conditions can be shown to have been satisfied at the time of the application the status of exemption can be granted by the Board of Trade for the period up to that time.

Points in Practice

SHARE VALUATION—II

In the notes in our last issue some general problems of share valuation and the alternative methods of valuation were discussed. In this second instalment of notes questions arising on the valuation of shares for Estate Duty purposes are considered. A last instalment under this general heading of "Share Valuation" will appear in our next issue.

THE DIFFERENCES IN THE BASIS OF valuation for Estate Duty of interests in private businesses are striking.

Partnerships

The position of a partner is the most favourable of all, for this is the one case where expenses of realisation may be deducted. The sum receivable under the partnership deed is the sum assessable to Estate Duty, provided that the partnership deed is a commercial document.

The circumstances in the case *Attorney-General* v. *Boden* were that there was a partnership between a father and two sons. The deed provided that on the death of the father, the two sons took over at a valuation, but without any payment for goodwill. It was held that so far as there was any goodwill, it was paid for by the sons giving their time to the business during the father's lifetime.

In the case *Attorney-General* v. *Ralli*, there were certain reserves owned by the firm which passed to the surviving partners under the partnership deed. A claim for Estate Duty was rejected on the ground that the transaction was purely commercial.

Companies

It is notorious that quite different tests are applied in the valuation of shares in private limited companies. This question will be discussed later, but the opportunity may now be taken to direct attention to the harsh consequences which can flow from the operation of the legislation relating to controlled companies. If it can be shown that the deceased was in control of a company at any time within five years of his death, the Inland Revenue must value the assets of the company, including goodwill, and then apportion the total valuation in order to arrive at the value of the deceased's shares.

In these circumstances, one is considering neither the terms of a private agreement, as in the case of a partnership, nor the value of a share in a private company, subject to restriction on transfers, but the value of the business on the assumption that it can be sold as a whole. Cases have been

encountered where the Inland Revenue have considered the market valuation of public companies carrying on a similar business and have used this stock market valuation as a factor in argument. It will be obvious that the differences resulting from this method of valuation may be striking.

A summary of the provisions of Section 55 and Section 46 of the Finance Act, 1940, are set out below, and it is evident that they were designed to counter ingenious systems of evasion. Since, however, the provisions are mandatory and not discretionary, every care must be taken that normal cases are not caught by these provisions, the consequences of which may be disastrous.

Controlled Companies—Section 55, Finance Act, 1940

The provisions of this Section provide that the holding in the company shall be valued on a basis of the assets including goodwill. The Section applies :

1. If death occurs after June 27, 1940.

2. If the company is controlled by fewer than five persons.
This definition of control is as for sur-tax purposes (Section 21, Finance Act, 1922). It must be remembered that for this purpose relatives (husband, wife, ancestor, lineal descendant, brother, sister) are regarded as one person. Details are not called for now, but it should be mentioned that the usual definition of " control " may differ in some respects from " control " for purposes of Section 55.

3. If either:

(*a*) The deceased had control of the company at any time within five years of death.

(*b*) The deceased was entitled to more than one half of the dividends and interest on debentures within five years of the death.

(*c*) The deceased at any time within the five years owned more than one half of the shares and debentures and no other person had control.

For the purpose of calculating whether more than one half of the shares and debentures were held, the nominal value (not paid-up value) of the shares should be taken.

Control for the purpose of Section 55, Finance Act, 1940, is defined as either:

i. Control of powers of voting on all questions or on any question affecting the company as a whole which would yield a majority of votes capable of being exercised. The phrase " capable of being exercised " must be considered as if a poll had been demanded, even although the deceased himself may have had no power to demand a poll. Dymond gives a good and simple example of a case, where, under this definition of control, two persons may have control of a company. A shareholding may be as follows :

	Ordinary	*Pref.*
A - - -	600	—
B - - -	400	700
Other Shareholders	—	300
	1,000	1,000

The preference shares carry votes on the sale of business only and on such a question B can exercise 1,100, or a majority of votes. The fact that he can exercise a majority of votes is sufficient to cause him to be considered to be in control of the company, although, in fact, 75 per cent. of the votes would be necessary to decide the question raised. The definition is " able to control a majority of the votes." The casting vote of the chairman in an equally owned company is sufficient for this purpose.

ii. Power to control the constitution or powers of the board.

iii. Ability to obtain control by exercise at the time of a power exercisable by him or with his consent.

Note that Section 55 does not apply to shares and debentures for which permission to deal has been granted, provided that there have been dealings within one year of the death.

The effect of the application of this Section, which is specially applicable to the valuation of controlling interests, is that the assets are valued on the basis of the greatest possible proceeds, whether by sale as a going concern or selling the assets individually. If on a basis of a going concern, goodwill must be valued.

The total value of the company, so ascertained, must then be apportioned among the different classes of shares issued according to the constitution contained in the Memorandum and Articles of Association. Normally, fixed interest securities will be valued at a figure near to par, and a deduction of the total of these made in order to ascertain the value of the equity.

No deduction is allowed for income tax on the profits earned to the date of death (*In re Duffy*).

Controlled Companies—Section 46, Finance Act, 1940

The following is the wording :

" Where any person dying after the commencement of this Act has made to a company to which this Section applies a transfer of any property (other than an interest limited to cease on his death or property which he transferred in a fiduciary capacity) and any benefits accruing to the deceased from the company accrued to him in the five years ending with his death, the assets of the company shall be deemed for the purpose of Estate Duty to be included in the property passing on his death to an extent determined in accordance with sub-Section 2 of this Section by reference to the proportion that the aggregate amount of the benefits accruing to the deceased bore to the net income of the company."

This may be referred to shortly as the " slice " method. It applies to the following companies :

1. The controlled company : control by fewer than five persons in accordance with the sur-tax definition.
2. The death after June 27, 1940, and transfer of property at *any* time.
3. Where any benefits have accrued during the five years prior to the death.

There was an amendment to this section by Section 36 of the Finance Act, 1944, which substituted the ratio obtained by comparing the aggregate of the income of the company for the five years prior to death with the amount of the benefits during that period of five years accruing to the deceased. In order to prevent evasion, there are provisions that distributions of assets by the company during the five-year period are ignored except so far as they relate to payments for full consideration or to the discharge of statutory liabilities. The limit of property charged to Estate Duty is expressed by the formula:

$$\frac{\text{Deceased's benefits for five years}}{\text{Company's total income for five years}} \times \text{company's assets.}$$

and the figure obtained by the application of this formula must not exceed the value of the assets transferred to the company, valued at the date to which they were transferred, plus a proportion

of the total income of the company since the date of transfer in so far as it was at a rate exceeding the rate of the dividends paid. In other words, the value that the deceased actually transferred plus the savings made by the company on his behalf. If the value ascertained in this way by the slice method is less than the value of shares ascertained in accordance with Section 55 of the Finance Act, 1940, on the basis of the value of the shares at the date of death, then no action need be taken. But if the slice so ascertained exceeds the value of the shares, then duty is payable by the deceased's estate on the value of the shares in the ordinary way, and duty on the excess value as shown by the slice method is payable by the company.

In order to obtain the rate of duty payable by the company, the value must be aggregated with the deceased's other assets and the company has the right to follow any assets which have been distributed during the period of five years prior to the deceased's death.

(To be concluded.)

Best In, Worst Out

By JOHN R. LANE, A.S.A.A.

Is it possible without the test of practical experience to find where there lies aptitude for and potential ability in accounting—to pre-select candidates for the profession on a reasonably reliable scientific basis?

War-time shortage of man-power and rapid growth of the profession in importance and public responsibility resulted, in 1943, in the formation by the American Institute of Accountants of a Committee on Selection of Personnel "to develop and establish techniques for the discovery of accounting ability, achievement and interests—early." In an article in *The Journal of Accountancy** the Committee reports on its initial research, and in a broad outline of its method and results announces the "Accounting Testing Program" to be ready for practical operation.

Of the three tests which comprise the programme, the most important seems to be that to determine vocational interest. Usually given first in the series, its object is to compare graphically a student's "reactions towards activities, occupations, types of people and ordinary problems" with a standard obtained by similarly testing a cross-section of practising accountants; conclusions are then drawn as to whether or not the student's interests show him to conform generally with the type most likely to be successful in the profession.

An orientation test usually follows, but since it has standards for different levels of experience it can be given at any suitable time. The object is to measure general aptitude.

Finally there is a test of achievement, to determine progress made in professional subjects. This test is given in two stages—the easier usually in the second year, and the harder in the final year, of the student's college or university career. If general progress and showing at the first stage are not satisfactory, the student may not be given the second stage.

The results of the tests, together with any other relevant information, are summarised on a "score-card" which the student will receive with his diploma on passing his professional examinations. It is not claimed that a scorecard is a complete assessment of an individual, but merely that it does provide a new form of measurement for a particular purpose.

* * *

The Committee believes that the programme will benefit students, initially by showing whether assessable abilities support accountancy ambition and later in finding employment. It is claimed that the potential employer will benefit by having additional information enabling him to select the most suitable candidates, and that the standard of accountancy teaching, the quality of recruits to the profession and the programme itself, will each improve with general acceptance by tutorial bodies and the profession of the principle of pre-selection.

Within the limits of research, then, the Committee concludes that the short answer to the question which opens this résumé is "Yes," and the general evidence given—including an indication of the expert nature of the Committee itself—tends to support that conclusion.

There are, however, several points not covered in the article. For instance, it seems that research testing was limited to students, already ambitious to become accountants, of academic institutions which teach accounting subjects. No mention is made of general testing of vocational interest, especially in schools which do not teach professional subjects, to discover aptitude in undecided students or those whose ambition at the time lies elsewhere, and to attempt to persuade those with satisfactory results to adopt accounting careers. Surely this is at least as important as the discovery of aptitude which would not in any case be lost to the profession.

The range of ages of students tested during research is not given and there is therefore no indication of how early potential ability for the profession might be discovered—a matter of importance in enabling the best use of academic time to be made, particularly in the cases of students likely to complete their school education at 16 or 17 years of age. It seems likely that those ages were, in fact, the minimum for initial testing of students commencing a higher education: if so, the student has at least three years schooling in front of him to be followed by normal professional office experience whilst taking the accountancy examinations. This arrangement seems to be inferior to that in this country, whereby university students can obtain both a degree and professional qualification in less than six years, including three years' practical experience.

Although not specifically stated, it is safe to assume that the student shown by the vocational interest test not to conform to the "type" will be advised that he may be wasting time if he continues accountancy studies, and he may re-direct his efforts as a consequence. One wonders, however, whether comparison of academic reactions with average reactions of a group matured by experience is a comparison of like with like. An alternative would be to measure reactions of normal (as opposed to pre-selected) candidates at the time of entry into the profession, follow them through beyond qualification and thereafter compute an average, to include only the successes. The result might provide a standard more akin to the experience and mental development of those undergoing the vocational interest test. It should be mentioned, however, that the graph given of a sample case shows only minor variation from the "professional standard," and an experienced member of

* December 1948—"*A New Yardstick for Accounting Skills.*"

the Committee says: "The vocational interest blank has been shown to be a valuable instrument . . . in at least 90 per cent. of the cases." But assuming the 90 per cent. to include both positive and negative assessments, how many of the latter might be the result of a student's comparative lack of knowledge of activities, occupations and types of people? Incidentally, it is perhaps surprising that the vocational interest chart shows that of twenty-five occupations, the average American accountant has the least interest in psychology.

With continuing research and practical experience allied in the future, the programme evolved may well be a contribution to the maintenance and improvement of professional quality—at least in America.

As a whole, however, it seems unsuited to the profession here, if only on account of the age question already mentioned. But even if the age of selection were as low as 14 years, very few schools other than higher educational establishments include in their curriculum subjects on which an achievement test might be based.

Yet recent examination results of the two senior accounting bodies in England show passes to be around or below 40 per cent., and it is not unreasonable to suppose that this figure might be improved if a selective vocational interest test were adopted. Indeed, many firms do test applicants before acceptance, but a standard test would be more beneficial to employers, potential employees and the profession generally. Initially such a test could only be applied to candidates wishing to enter the profession, and would of necessity be at the point of entry. Ultimately it would be preferable for the testing time to be in the last stage of the school career in order to effect the general location of latent aptitude mentioned earlier.

Certainly the ever-increasing demands made upon the profession call for very high qualities, and although the examinations ensure the maintenance of qualified standards, does not any method which might improve the quality of entrants—and incidentally, their value in use during training—at least merit serious consideration?

TAXATION

Expense Allowances and Benefits in Kind

The question of expense allowances and benefits in kind is causing considerable difficulty in practice. This is due not only to the obscurity of the income tax provisions enacted last year but to the lack of co-ordination with company legislation in the matter of disclosure of directors' remuneration. A re-examination of the problem may assist interpretation, but it seems that many problems will be unanswerable as the law now stands.

By JAMES S. HEATON, A.S.A.A.

Expense Allowances

(a) *Under the Finance Act, 1948.*—The position is reasonably clear so far as expense allowances are concerned. A payment for expenses is *prima facie* to be regarded as remuneration, the onus of establishing title to a deduction therefrom being placed on the recipient. Such a deduction must pass the stringent, not to say archaic, tests laid down in Rule 9 of Schedule E, wherein the only expense specifically admissible is that of keeping a horse to enable the duties of the office to be performed! Not only must expenses have been wholly, exclusively and necessarily incurred in the performance of the duties. Necessity, as interpreted in the Courts, is to be related not to the personal circumstances of the holder of the office, but to the intrinsic qualities of that office, which are common to any individual holders from time to time. Literal application of this provision would clearly be impossible, so that as many cases as possible are being notified to Inspectors of Taxes, in response to circular letter number 276, for the issue of a formal dispensation, when it is clear that an examination of expenses would bring no net liability to tax. In the absence of a dispensation, expense allowances are to be treated as pay for P.A.Y.E. purposes, subject to such an increase in the coding as may be obtained to cover that part of the allowance which qualifies for a deduction under Rule 9.

(b) *Under the Companies Act, 1948.*—There is no lack of co-ordination in this aspect. Section 196 (2) of the Act provides that the emoluments of a director are to include "any sums paid by way of expenses allowance in so far as those sums are charged to United Kingdom income tax."

Three points arise:

(i) The sub-Section refers to the net amount ultimately charged to tax, that is, the expense allowances less admissible deductions.

(ii) It is implied that accounts for the period in which the allowance was paid will have been completed before liability under Schedule E is established. Section 196 (6) (*b*) covers this by authorising disclosure in the first accounts to be presented after the facts are available, or in a statement annexed thereto.

(iii) If tax liability is established before the termination of the accounting period in which the expense allowance was paid, then the amount charged to tax will be merged with other directors' emoluments. On the other hand, if it is necessary to apply Section 196 (6) (*b*), the aggregate of amounts so charged must be separately disclosed, as part of other items of emoluments involving a time lag. (Section 196 (6) (*a*).) This disparity of treatment may raise the question of the time when expense allowances are in fact charged to tax. Tax deduction under P.A.Y.E. is technically no more than a means of payment on account of liability to be assessed and charged at a later date on the emoluments "for the year of assessment," although the disparity was reduced from 1949-50 by Section 30, Finance Act, 1948, which gave statutory recognition to the dispensation with formal assessments in certain cases. It seems likely that there will usually be assessments where they are expense allowances, and ultimate liability will not emerge until admissible

deductions are agreed and the emoluments formally assessed and charged.

Benefits in Kind

(a) *Under the Finance Act, 1948.*—A distinction is drawn between benefits which call for a corresponding outlay by the employer, on the one hand, and benefits arising from a use of assets which remain in the employer's ownership, on the other hand. In the first case, the expense incurred by the employer " in or in connection with " the provision of the benefit is to be treated as if it were a payment for expenses. This means that (*a*) such expense will, *prima facie*, be treated as remuneration ; (*b*) the procedure of deduction under Rule 9 of Schedule E will be available if appropriate ; and (*c*) the value of the benefit and the cost of providing it will be deemed always to be the same. In the second case, an arbitrary measure of the benefit is to be made by reference to the net Schedule A assessment, where the benefit takes the form of use of property ; or to the annual value of the use of any other asset.

The following points may be mentioned :

(i) The words in Section 39 (1), " where a body corporate *incurs* expense," at first reading suggest a present and specific outlay by the employer in providing the benefit. Such an interpretation would clearly exclude many benefits and does not appear to be tenable. The phrase " in connection with," quoted in the preceding paragraph, indicates that the expense need not be specifically related to the benefit when it is incurred. Inferentially, also, past expenditure is covered if the benefit is present, since, apart from Section 40 (2), the original cost of, for example, a car would constitute a benefit on its transfer some time later into the ownership of the director. That sub-Section provides that the value of the asset at the time of transfer is instead to be taken as the measure of the benefit, if it has been used or has depreciated. It would seem, for example, that the transfer to a director of an unused " covenant-free " car would be treated as a benefit at the cost to the company, but use in the meantime would imply current valuation, whether above or below cost. An unused asset may not be valued for this purpose, then, at more than cost, but may be valued at a less figure.

(ii) As regards the provision of accommodation, the rent paid by the employer will be taken as the measure of the benefit, unless this is less than the net Schedule A assessment and the employer, as a result, is called upon to bear tax thereunder. In such a case the net annual value is substituted for the rent. If no rent is paid by the employer, whether by reason of ownership of the property or full beneficial occupation, the net annual value is again taken as the measure of the benefit.

(iii) If the benefit takes the form of the use of an asset (other than property on which the employer is assessable under Schedule A) which remains in the ownership of the employer, the benefit is to be taken as the annual value of that use. This will most commonly cover the private use of a company's car by a director.

(iv) Section 40 (4), which lays down the rule stated in the preceding paragraph, has a proviso, the purport of which is apparently to substitute for the annual value of the use of the asset the amount of rent or hire paid therefor by the employer, if this is the higher of the two figures. If the rent or hire is at least equal to the annual value, Section 40 (4) is not to apply, so that the former will be taken as the benefit, since, being a payment by the employer, it is covered *ab initio*. If, on the other hand, the rent or hire is less than the annual value of the use of the asset, the latter is to be taken as the benefit, and, to exclude double assessment, the actual payment by the employer is to be ignored. It seems at least doubtful, however, whether this proviso has the meaning apparently intended, since it appears to be governed by the opening words of Section 40 (4), which are : " Where an asset which *continues to belong* to the body corporate . . ." It is difficult to imagine cases in which rent or hire is paid by an employer for an asset which continues to be in his ownership. One could imagine a case in which a company pays only a nominal amount for the hire of a car owned by its subsidiary. It would be natural to find that the higher amount represented by the annual value of use by a director of the first company should be taken as the measure of the benefit ; but it does not seem that this result may follow from the wording of the proviso, since the car is not the employer's property.

(v) Is it necessary to draw a distinction between " use " and " consumption ? " A benefit may, for instance, take the form of consumption of wines bought by the employer many years ago at a fraction of current value. It seems that Section 40 (4) applies only where the asset *as a whole* continues to belong to the employer, and has no application when the benefit comprises consumption of part of a stock, only the *remainder* of which remains in the employer's ownership. The result would be that original cost would be the measure of the benefit.

(vi) What is the position where a director is charged at cost prices, or at selling prices less a special discount, for goods used for private consumption or personal purchases ? It does not seem that there can be a taxable benefit unless goods are charged at less than cost, and then only to the extent of the difference between those two figures. The point is that, in other cases, the employer has not incurred any expense in providing a benefit, and it does not seem possible to introduce any negative and hypothetical element of loss of profit. Nor would there seem to be liability under Schedule E on general grounds, since the discount or sales margin does not constitute " money's worth " as construed in the Courts.

(b) *Under the Companies Act, 1948.*—Section 196 (2) provides for inclusion as a director's emoluments of " the estimated money value of any other

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Examples of the suggested relative treament of benefits in kind

	Benefit in Kind	*Company Accounts*	*Income Tax*
(i)	Company's house occupied rent free	Estimated money value (i.e., to the director)	Net annual value
(ii)	House occupied rent free for which the company pays	do.	Rent or net annual value whichever is greater
(iii)	Private use of car	do.	Annual value of use plus actual running expenses.
(iv)	Goods consumed without payment	do.	Cost to employer
(v)	Discount on private purchases	do.	Not taxable
(vi)	Free domestic help for private apartments	do.	Cost to employer

It is suggested that no distinction need be drawn between " estimated money value " and " annual value of use " and that the standpoint in both cases should be that of the recipient of the benefit.

benefits received by him otherwise than in cash." The disparity between the company and taxation law is at once apparent. The latter distinguishes between benefits in kind which have a corresponding cash outlay by the employer, and benefits comprising the use of the employer's assets. The one implies a specific cash measurement and the other a valuation. Under company law, all benefits in kind are to be measured at their "estimated money value," which need not coincide with the cost of providing them. Further, for this purpose, those benefits calling for a valuation are bound by the net annual value in the case of property assessed on the employer under Schedule A. There is no such distinction under the Companies Act. A director who finds that his remuneration is variable according to the context is likely to regard the matter, in the words of Mr. Justice Harman (All England Reports, 1948, page 932), as "one of those absurdities arising out of a subtlety of the law which makes it stink in the nostrils of the public."

Conclusion

It should perhaps be added that the provisions of Part IV of the Finance Act, 1948, are not confined to directors, or to employees of companies. Other relevant employers and employees are defined in Sections 41 and 46 of the Act.

Allowances on Plant

Of the income tax provisions of the Finance Bill, those set out in Clauses 16 and 17 and the Sixth Schedule will undoubtedly be of the widest practical importance. Assuming that they are not substantially altered before they become law, these particular provisions will sooner or later affect every claim to capital allowances on plant and machinery.

Clauses 16 and 17 of the Finance Bill are relatively short and straightforward. Clause 16 provides for an increase from one-fifth to two-fifths in the initial allowance on expenditure incurred on or after April 6, 1949, upon the provision of plant and machinery. There is a consequential amendment of Section 34 of the Finance Act, 1946, dealing with the initial allowance on plant when the buyer and seller are under the same control. The Clause also provides for a re-allocation of the five-year straight-line allowances on scientific research plant; expenditure on or after April 6, 1949, is to be allowed as to 60 per cent. in year 1 and 10 per cent. in each of years 2 to 5 inclusive.

Clause 17 serves merely to introduce the provisions of the Sixth Schedule, and to define the expression "annual allowance" in relation to plant and machinery as meaning an allowance or deduction under Rule 6 of Cases I and II or under Section 20 of the Income Tax Act, 1945.

The Sixth Schedule carries out what the Chancellor of the Exchequer described as the "minor matter" of defining "methods of calculating allowances in respect of plant and machinery." This was certainly an understatement, for the Schedule covers nearly thirteen pages and includes some very elaborate and complex paragraphs. Its importance may be judged from the fact that *inter alia* it effects the following changes:

(i) In place of such deduction as the Commissioners "may consider just and reasonable" the annual allowance is to be arrived at by reference to "the anticipated normal working life" of the plant in question.

(ii) The jurisdiction of the General or Special Commissioners in matters of wear and tear is to be brought to an end. Annual allowances for the future are to be determined by the Commissioners of Inland Revenue, with a right for the applicant to "refer" to the Board of Referees. This right is to be automatic only in cases of applications by or on behalf of "a considerable number of persons" whether carrying on a particular class of business or using a particular class of plant. In the case of an application by a particular person the Commissioners of Inland Revenue are to be empowered to bar, or to limit the scope of, such a "reference" if they regard it as other than reasonable. This empowering of one party to a dispute to prevent any appeal by the other party appears to introduce a most undesirable principle into our fiscal legislation.

From the standpoint of day-to-day working, the most interesting provisions of the Sixth Schedule are those in Part I, which define the two methods of calculating annual allowances. The "normal method" (paragraph 1) is based on the reducing balance calculation commonly used hitherto by the great majority of taxpayers. The "alternative method" (paragraphs 2, 3 and 4) approximates to the straight-line calculation which has already been applied in a limited number of cases.

With either of these methods it will first be necessary to agree the "anticipated normal working life" of the machinery in question, and then to ascertain what percentage annual allowance will reduce original cost to 10 per cent. thereof by the end of that period. It has been suggested that 10 per cent. is excessive in relation to the scrap value of most plant, but this appears to be based on a misconception. The factors of normal working life and 10 per cent. residual value are to be used merely to determine the *basic* annual allowance. Since this will be increased to five-fourths, and since there will also be a 40 per cent. initial allowance, it is clear that the written-down value at the end of the normal working life will be very much less than 10 per cent.

In relation to the "normal method," a point of doubt which has led to a good deal of discussion is finally removed. It is provided that the annual allowance for any year shall

be calculated on the value as reduced by the initial allowances, the annual allowances, and any scientific research and exceptional depreciation allowances, for all previous years. There still remains one exception to this rule—the old one-tenth and one-fifth increases that were allowable up to 1945-46 are not to be deducted for this purpose, so that some record of these will still have to be maintained until all the plant in question drops out of the computation.

THE TWO METHODS COMPARED

The results of the two methods can be most clearly considered and compared by reference to an example. For this purpose it is assumed that a trader buys a machine for £100 on or after April 6, 1949, and that its normal working life is agreed by the Inland Revenue at ten years. The percentage rates of the *basic* annual wear and tear allowances by the two methods will be as follows:

(*a*) "Normal method" (reducing balance)—20 per cent.
(*b*) "Alternative method" (straight line)—9 per cent.

The calculations of the initial and annual allowances over the normal working life of ten years will be as follows:

Year No.		(*a*) "Normal Method" (Reducing Balance) £	£	(*b*) "Alternative Method" (Straight Line) £	£
1	*Cost*		100		100
	Allowances				
	Initial (40 per cent.)	40		40	
	Annual	25	65	11	51
			35		
2	"		9		11
			26		
3	"		6		11
			20		
4	"		5		11
			15		
5	"		4		11
			11		
6	"		3	(Balance £5	
			8	to total £100)	
7	"		2		
			6		
8	"		2		
			4		
9	"		1		
			3		
10	"		1		
Written down value at end of normal working life			£2		Nil

By either method the rate must be that which, by itself, will reduce the written-down value to one-tenth of cost at the end of the normal working life: this rate will be 20 per cent. by method (*a*), and 9 per cent. by method (*b*) (under the assumptions made for the value of the machine and its agreed normal working life). These rates will be multiplied by five-fourths, so that the overall annual rates will become: (*a*) 25 per cent., and (*b*) 11¼ per cent.

In the following summary the cumulative totals allowed up to the end of each of the ten years of the normal working life are expressed as percentages of original cost:

To end of Year	"Normal Method" (Reducing balance) Percentage	"Alternative Method" (Straight line) Percentage
1	65	51
2	74	62
3	80	73
4	85	84
5	89	95
6	92	100
7	94	100
8	96	100
9	97	100
10	98	100

It will be seen that, from the standpoint of obtaining the maximum allowances in the shortest possible time:

(i) The "normal method" is the better up to the end of year 4.
(ii) The "alternative method" overtakes and passes the "normal method" in year 5.
(iii) The "alternative method" concentrates the entire allowances in the first six years.

In relation to plant with a longer or shorter life than ten years the effect is very similar, although obviously there will be some variation in the incidence of the allowances. Under the "normal method," there will always be some written-down value, however small, at the end of the normal working life; under the "alternative method" there can be none. The following short table shows the number of years over which plant with differing lengths of life is completely written off under the "alternative method," and, for comparative purposes, a summary of the position that would arise under the "normal method":

Normal working life (1)	"Alternative method" (completely written off at the end of) (2)	Basic annual allowance (3) percentage	"Normal method" (Approximate written-down value at end of period stated in) column (2) (4) percentage	column (1) (5) percentage
5 years	3 years	36	2	1
7 "	4 "	28	7	1
10 "	6 "	20	8	2
12 "	7 "	17½	9	3
15 "	8 "	14	10	3
20 "	11 "	11	11	3

Under the "normal method," it is a little troublesome to ascertain the basic annual allowance percentage applicable to plant possessing a normal working life of more than a few years. The above table provides a relatively simple means of doing so in cases other than those which it specifically covers, and so long as they are within the range of five to twenty years. The procedure is to ascertain the product of columns (1) and (3) in relation to the next longest life shown in the table, and then to divide this

product by the number of years in the normal working life of the plant in question. The following examples illustrate this point:

Normal working life of the plant in question (*A*)	*Next highest product* Details	Product (*B*)	*Basic annual allowance* (*to nearest ½ per cent.*) (*B*÷*A*) (*C*)
6 years	7×28	196	33 per cent.
8 „	10×20	200	25 „
11 „	12×17½	210	19 „
18 „	20×11	220	12 „

In these examples and in the table which precedes them the basic annual allowance has been taken to the nearest ½ per cent. It remains to be seen whether in practice the Inland Revenue will insist on any greater degree of accuracy.

SOME GENERAL CONCLUSIONS

The table before the last points to several conclusions. It shows that the " alternative method " will result in complete writing off in a fraction over one-half of the normal working life, whatever may be the length of the latter. It suggests that the " normal method " will require a higher basic annual allowance than has usually been given hitherto; for instance, the basic rate of 20 per cent. commonly applied to motor vehicles implies a normal working life of ten years, which is plainly excessive in most cases. It also shows that the " normal method " will leave, at the end of the normal working life, only a very modest written-down value which even in the case of twenty-year plant is well under 5 per cent. of cost.

The " alternative method," despite its attractions, will be open to two objections: first, that during the early years of new plant it will produce rather less favourable allowances than the " normal " method, and, secondly, that, owing to the complete writing off, there will almost invariably be an over-allowance that will have to be remedied by a balancing charge. Under the Sixth Schedule, it is a condition precedent to the adoption of the alternative method that suitable records should be kept; they will plainly be necessary if track is to be kept of each machine and the cumulative allowances on it. It seems likely that this method will appeal to many concerns which keep detailed plant registers.

However, the " normal method," with the doubled initial allowance and in some cases with increased annual allowances, will also possess certain advantages, and to many of the smaller taxpayers not the least of these may be that they are already used to something very similar, and that it avoids the need for comprehensive plant records.

The choice of methods will raise questions which in some cases will require detailed consideration and lengthy research. Whichever method is adopted, the existing disparity between the tax allowances and the depreciation provided in the accounts will be still further widened. Even with the initial allowance of 20 per cent., it has appeared desirable to make some accounting adjustment in this respect wherever any appreciable quantity of plant is employed. It will be simple to apply similar treatment to greater figures, but the increased disparity will doubtless necessitate further consideration of cases in which no such adjustment has hitherto been made.

The provisions of the Sixth Schedule clearly do not contemplate any immediate wholesale review of the rates of annual allowances. It is specifically laid down that existing rates may be preserved, and it seems to follow that the initiative in seeking a fresh rate arrived at in strict accordance with the new rules will often rest with taxpayers.

Part I of the Schedule authorises a change-over from " the normal method " to " the alternative method " (paragraph 4). It also includes provisions relating to the abnormal user of plant—that is, when the user is greater or less than " normal " (paragraph 6)—and to plant used in mines, oil wells, etc. (paragraph 5).

Part II confirms the existing practice of restricting initial, annual and balancing allowances, and balancing charges, where plant is used partly for purposes other than that of the business concerned. It also provides for cases where any of the allowances are wholly or partly reimbursed by some third party.

Part III applies the two earlier Parts of the Sixth Schedule to annual allowances for 1947-48 and 1948-49, but only in so far as the assessments concerned have not become final and conclusive.

There can be no doubt that this revised scheme of allowances is more logical than the present one, and in general it should benefit industry and commerce. But the great increase in recent years in the legislation governing allowances on fixed assets emphasises the need for early simplification, or at least the consolidation that has been foreshadowed by the Chancellor.

Taxation Notes

Abolition of Stamp Duties

CLAUSE 30 OF THE FINANCE BILL PROVIDES for the abolition of the stamp duty of 10 per cent. on bonus issues of shares or other securities by companies. This duty was imposed by the Finance Act of 1947 and came into effect on April 16, 1947. Assuming the passage of the present Bill into law in due course, the duty is to cease to have effect as from April 7, 1949, and will thus have had a life of rather less than two years.

The abolition of many other stamp duties is proposed ; these are set out in the Eighth Schedule. The following are likely to be of particular interest to practising accountants :

Stamp duties for Articles of Clerkship.

Stamp duties for Letters of Allotment and Letters of Renunciation, Scrip Certificates and Scrip. (These are also exempted from duty as Agreements, Memoranda of Agreements or Deeds.)

It may be noted, however, that all the exemptions proposed in this Schedule are to take effect " in relation to instruments made or executed on or after the date of the passing of this Act." The Finance Act is not, as a rule, passed until some date in July.

The duty on Letters of Allotment and Renunciation, which had stood at 6d. (or 1d. where the nominal value was less than £5) from 1899 to 1947, was doubled in the latter year, thus being kept in step with the doubled *ad valorem* duties on transfers and conveyances. The abolition of these

duties will be most welcome to company secretaries, issuing houses and printers of company forms, for considerable delays have at times occurred in getting the stamp duties impressed. It is no secret that there has at times been a great shortage of cheque books for the same reason and branch banks have even been known to have issued a few loose cheques to customers, torn out of the last two or three of their stock of cheque books! The whole system of payment of stamp duties by impressed stamps would seem to be archaic and in need of revision, at least where commercial documents are concerned. It may still suit the leisurely pace of the conveyancer where interests in land are involved. While the abolition of the duties set out in the Eighth Schedule will help, there is no proposal to abolish the 2d. duty on cheques or, apparently, to alter the manner of extracting it.

Schedule B and Initial Allowances

The Inland Revenue are quoting Section 23 of the Income Tax Act, 1945, as authority for refusing initial allowances in Schedule B cases. As from April 6, 1949, this will, of course, cease to be relevant as all farming operations come under Schedule D. In 1947-48 and 1948-49, however, there have been many instances of small acreage farmers, basically assessable under Schedule B, in which Rule 6 and Section 34 claims have been put forward. In practice, the owners of these farms all seem to be men (or women) with substantial investment incomes, so that relief from sur-tax is involved in addition to the income tax repayment. A careful reading of Section 23 seems to throw some doubt on the strength of the Revenue case, but it must be borne in mind that the practice of adding wear and tear and other capital allowances to a loss for the purpose of a Section 34 claim is concessional. It is quite obvious that any attempt to challenge the Revenue ruling on this point would be carried further.

Gross Annual Value in Lieu of Rent

Another point arising in the agreement of farm computations is the deduction for annual value where the property is owned by the farmer himself. As readers will know, the normal procedure in computing business profits is to deduct the net annual value, the principle involved being the avoidance of a double assessment. In such cases the cost of repairs is also charged in the profit and loss account.

Where a farm is concerned the cost of repairs, which would be admissible in a maintenance claim, is not allowed as a deduction from the profits, and, indeed, it is an advantage to the owner to deal with the matter in this way where a fraction only of the "farmhouse" expenses and annual value are allowed as applicable to the business of husbandry. When the maintenance claim is presented, however, the statutory allowance for repairs will be deducted from the average of the amount actually expended and in these circumstances the gross annual value (or relevant proportion of it) is allowed as a deduction in the Case I computation.

Profits Tax—Investment Companies

Where the profits of an investment company are large enough to attract profits tax they are likely to comprise a large number of different dividends. Some of these will be "franked" and some will not, and it is not possible to make even a reasonably approximate computation of the liability without fairly full information on this point. In practice, the only way to reach finality seems to be to leave the matter to the Inspector of Taxes, but this does not help much when a quick computation is required for the purpose of provision in the accounts. Where the investments do not change much from year to year it will, of course, be possible to restrict inquiries to the new investments, for it must be borne in mind that a franked dividend is one which comes from any company which is intrinsically liable to pay profits tax: it is not necessary to show that it has, in fact, paid any such tax for the year to which the dividend relates.

Two further special points arise in the treatment of such companies. In the first place, as the whole of the income, or at least the greater part of it, is taxed by deduction, there is no Case I computation in which the profits tax can be deducted. It is, therefore, allowed to be taken into account as a management expense for the purpose of a management expenses claim.

Secondly, if the company is controlled by five or fewer persons, the whole of its income will be the subject of a sur-tax direction each year. The provisions of Section 31 (2) and (3), Finance Act, 1947, then apply. If for those years or periods, which together include the whole of the chargeable accounting period, the actual income of the body corporate from all sources is apportioned under or for the purpose of Section 21, Finance Act, 1922, *and all persons to whom it is apportioned are individuals*, no profits tax is chargeable. In other words, profits tax and sur-tax are mutually exclusive, and controlled companies whose income is apportioned are treated, in effect, as though they were partnerships. This analogy is strengthened by Section 31 (3), which deals with the cases where the persons to whom the income is apportioned are not all individuals. Relief from profits tax is then dependent on a claim being made by the company itself *and* all the persons (other than individuals) to whom the income is apportioned to have the profits tax (if any) computed as though the trade or business had been carried on in partnership by the persons to whom the income is apportioned. The practical result of this is that the proportions of the profit which go to other companies will be liable to profits tax whereas the amounts apportioned to individuals will not.

The notice has to be given within six months from the end of the chargeable accounting period, or such longer time as the Commissioners may in any case allow, and once it has been made it will apply for that and all subsequent chargeable accounting periods for which a sur-tax direction is applicable.

Rent-free house—Assessability to Income Tax

The case of *Gray* v. *Holmes* (K.B.D., January 26, 1949, T.R. 71) was noted in our June issue. There, Croom-Johnson, J., had held that, where the under-manager of a coal mine was compulsorily resident in a house provided for him rent-free because it was necessary for him to live in it for the performance of his duties, the under-manager's occupation was, within the decision in *Reed* v. *Cattermole* (1937, 21 T.C. 35), representative and not beneficial and, consequently, the annual value was not includible in the employee's assessment under Schedule E. On May 6, 1949, *Ringham* v. *Holmes and Seven other Similar Cases* (K.B.D., T.R. 177) came before the same judge; and the appeals were allowed by consent in all eight cases. Counsel for the appellants and for the Revenue announced that the latter had consented to this course being followed in view of the similarity of the facts to those in *Gray* v. *Holmes*. Counsel for the Crown intimated that there would be no appeal in the last-mentioned case but that certain implications from the Court of Appeal's decision in *Reed* v. *Cattermole* "may be the subject of review in a higher Court." The intention, apparently, is to choose a suitable case and to take it through to the House of Lords. Judging by precedent, if this fails to produce the desired result recourse will be had to legislation.

Double Taxation—Irish Republic

An agreement for the relief of double profits taxation in the United Kingdom and the Irish Republic was signed during May. The general effect is that Irish Corporation Profits Tax paid, in accordance with the agreement, by British companies on Irish profits will be allowed as a credit against British Profits Tax on these profits, and *vice versa*. The text of the agreement has been published as a Schedule to a draft Order in Council.

Re-opening of Profits Tax Assessments.

The Financial Secretary to the Treasury stated in the House of Commons on June 2 that in general an assessment to tax which had become final and conclusive could be re-opened only under the provisions of Section 24 of the Finance Act, 1923. This Section dealt with certain cases of error and mistake and was applied to profits tax by the Finance (No. 2) Act, 1945 (Section 35 and Schedule V). Under these provisions a judicial decision had no retrospective effect in relation to an assessment which had become final and conclusive.

Double Taxation—Sweden and Argentina

The double taxation convention with Sweden relating to taxes on income and the arrangements with Argentina for the avoidance of double taxation on shipping and air transport profits were published during May as schedules to draft Orders in Council. The documents are the draft Double Taxation Relief (Taxes on Income) (Sweden) Order, 1949, and the draft Double Taxation Relief (Shipping and Air Transport Profits) (Argentina) Order, 1949.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT., Barrister-at-Law

Income tax—Purchase of business—Vendor's agreement to discharge debts of business—Vendor's failure to do so—Debts discharged by purchaser in order to preserve goodwill—Voluntary payment—Whether capital payment or admissible as deduction in computing profits—Income Tax Act, 1918, Schedule D., Cases I and II, Rule 3 (a).

Cooke v. *Quick Shoe Repair Service* (K.B.D., January 31, 1949, T.R. 87) was an interesting little case which illustrates the fine borderline which often divides capital from income expenditure. Three partners trading as the Quick Shoe Repair Service had purchased a business, and by the terms of the agreement the vendor was to discharge the debts of the business owed by him on the particular day specified in the contract. As the latter found himself unable to pay, the firm, to use the words of the learned judge, found themselves in the position that if they did not pay "their name would be mud." They, therefore, in order to preserve the good name of the business paid the debts and claimed the amount as a deduction in computing their trading profits. The General Commissioners, fortunately for them, allowed the claim holding that the payments were made in order to preserve the value of the capital assets, namely, the purchase of the goodwill, and Croom-Johnson, J., affirmed their decision.

As the result of his analysis of the cases, the learned judge came to the conclusion that the question was one of fact and he held that a passage in Lord Cave's judgment in *Atherton* v. *British Insulated and Helsby Cables, Ltd.* (1926, A.C. 205, 10 T.C. 155), that a sum of money expended

> voluntarily and on the grounds of commercial expediency, and in order indirectly to facilitate the carrying on of the business, may yet be expended wholly and exclusively for the purposes of the trade

applied to the findings of the Commissioners, whilst *Southern* v. *Borax Consolidated, Ltd.* (1941, 23 T.C. 597) showed that money expended with a view to preserving an asset—a decision based largely on the *Atherton* case—was deductible once the Commissioners were satisfied upon this point.

The dividing line in such cases is clearly a very fine one and, obviously, the point of most importance is to win before the Commissioners. Nevertheless, the closing passage in the judgment of Croom-Johnson, J., is worthy of quotation. Judges, like more humble folk, are not immune from the temptation to go beyond the limits of the problem before them. Resisting this in the present case, the learned judge said that counsel for the respondent :

> has convinced me that if I were to examine those matters I might be treading over into territory which is outside my jurisdiction—instead of keeping directly to the task to which I am confined in trying cases based on cases stated.

E.P.T.—Avoidance or reduction of liability—Acquisition of shares in company whereby relation of principal and subsidiary company created—Finding by Special Commissioners that main benefit was not avoidance or reduction of liability to E.P.T.—Finding that it was none the less one of main purposes of transaction—Finance Act, 1941, Section 35—Finance Act, 1944, Section 33.

Cumberland Coal Company (Whitehaven), Ltd. v. *C.I.R.* (K.B.D., January 24, 1949, T.R. 61) was a case where it was not disputed that the E.P.T. position resulting from the acquisition of 90 per cent. of the appellant company's shares by another company played a considerable part in the transaction. The Special Commissioners whilst holding that the "main benefit" was not reduction or avoidance of liability within Section 33 (3) had held, nevertheless, that the case was within Section 35 in that the main purpose or one of the main purposes of the transaction was avoidance or reduction of liability. It was argued upon behalf of the appellant company that once having found that the "main benefit" was otherwise the Special Commissioners could not revert to Section 35 and hold that avoidance or reduction of liability was the main purpose or one of the main purposes of the transaction. The logic of this argument failed to impress Croom-Johnson, J., who characterised it "as a sort of mental exercise for me." He could see no misdirection in the finding of fact by the Special Commissioners.

Schedule E—Employment—Expenses necessarily incurred in performance of duties—Use of living-room for purposes of employment—Expense due to employee having to reside in particular district—Income Tax Act, 1918, Schedule E, Rule 9.

Bolam v. *Barlow* (K.B.D., January 25, 1949, T.R. 65) was one of the many cases which illustrate the harshness of Rule 9 of Schedule E, a defect in our income-tax system which has become of far greater importance now that employments formerly assessed under Schedule D have been transferred to Schedule E. In the present case, the respondent had used his living-room for the purposes of his employment and a telephone had been installed in it by his employers. He also contended that he had to pay more for accommodation than would otherwise have been necessary because he had to live near his job. The General Commissioners had found in his favour but without any finding upon the second point. As regards this, Croom-Johnson, J., said that Rowlatt, J., had accepted with great doubt the finding in *Nolder* v. *Walters* (1930, 15 T.C. 380) that the excess of actual cost over a subsistence allowance was admissible as an expense and he, himself, shared that doubt. As it was, he found that there was no evidence upon which the Commissioners could come to the conclusion that the expenses in question were within the Rule.

In his judgment, he pointed out the need for appeal to the Legislature. As regards this, there would seem to be no necessity to await a general revision of the income-tax laws. A simple change whereby the rule applying to cases within Cases I and II of Schedule D is made to apply equally to Schedule E would do what could have been done and should have been done in 1922. Why the scope of such an unsatisfactory rule as Rule 9 should have been extended instead of being restricted at what was a favourable opportunity has never been explained, and the provisions of Part IV

of Finance Act, 1948, have aggravated the position.

To-day, with income tax at its present level, the Revenue is, no doubt, only doing its duty in obtaining powers to tax whatever income may be included in "expense allowances." It would seem, however, to be no less its duty to see that real expenses which reduce the subject's taxable capacity are not taxed as income. The severity of Rule 9 is, no doubt, administratively convenient; but the interests of justice would seem to be of even greater importance.

Schedule D, Case I—Joint purchase of farm by solicitor and farmer—Intention to establish on farm a herd of Guernsey cows—Abandonment of intention and farm let to tenant—Sale of farm at profit fourteen years after purchase—Other land development transactions—Whether profit realised on sale of farm from a transaction in the nature of trade.

If the judgment in *Cooksey and Bibbey* v. *Rednall* (K.B.D., January 27, 1949, T.R. 81) established no new principle it is none the less both interesting and important as a lesson in the application of an old one. The appellant Cooksey was a solicitor who in partnership—but not with the appellant Bibbey—had been between 1920 and 1925 engaged in the purchase and development of three building estates. In 1924 the appellants purchased jointly a farm with the intention that the appellant Cooksey should establish thereon a herd of Guernsey cows, the farm to be managed by the appellant Bibbey who was a practical farmer. For reasons set out in the case the project never materialised and the appellants in 1924—the year of purchase—let the farm to a tenant at a rent which gave a good return on the investment. Between 1924 and 1938, when the farm was sold, wells were sunk and pipes were laid to provide a supply of water for the cattle on the farm.

Although the appellant Bibbey had had no part in the appellant Cooksey's previous land development activities, in 1930, six years after the farm had been let to a tenant, the appellants did embark in partnership in the business of land development and between 1930 and 1940 had bought and developed five estates. Liability in respect of the profits arising from this business was not disputed.

Upon February 14, 1938, the appellants, finding that a high price was obtainable for the farm, sold it at a very handsome profit; and it was this profit which the Revenue had sought to assess as arising from a transaction by way of trade. Upon appeal, the General Commissioners had accepted the evidence of the appellants as to the original intention of the appellants in purchasing the farm and as to their having retained it as an investment; but, nevertheless, they had held that the profit realised arose from a transaction in the nature of trade. Croom-Johnson, J., reversed this decision as a finding of fact for which there was no evidence.

In his judgment the learned judge pointed out that the fact that the appellant Cooksey had been engaged with other partners in land development was no evidence that the separate and distinct partnership between him and the appellant Bibbey in the farm was (after the abandonment of the original intention) a partnership or joint adventure for purposes of trade. He said, with regard to the purchases by the appellants in partnership in 1930 and thereafter, that there had been no finding or evidence that in these partnership transactions the farm had been included, and, in view of the finding as to the original intention, he held that the setting up of the partnership in 1930 could not be evidence to contradict and get rid of that finding. He held, however, that but for this finding, what had happened might well have constituted some evidence, nevertheless, and it was possible for the farm after being held for many years as an investment to have been turned into the subject-matter of a trading in land. He mentioned that *C.I.R.* v. *Hyndland Investment Co., Ltd.* (1929, 14 T.C. 694) had been cited to him in this connection. Everything, he said, depended upon the exact circumstances.

The moral of this case is that the intention underlying a first transaction cannot be evidenced by later transactions except in so far as they show system; and where a definite and different intention is proved in respect of the original transaction as compared with the later ones, normally, it cannot be included in the series of trading transactions. It has, however, to be remembered that in many cases there is mixed intention, e.g., land may be bought both for the purpose of ultimate re-sale, or development, if a favourable opportunity arises and also as an income-producing investment. In such a case as this last, if, say, the income from the property shows only a small return upon cost there will be a suggestion that it is, in part at least, a transaction by way of trade; but this may, of course, be offset by other evidence to a contrary effect.

Estate Duty—Deed of trust—Accumulations of income to be applied by trustees to creation of reserve fund for maintenance or increase of trust estate and reduction of heritable debts, if any, on trust estate—At expiry of 21 years from date of deed transfer to settlor's sons and their heirs—Accumulations Act, 1800, Section 1—Finance Act, 1894, Sections 1, 2 (1) (b).

In *Lord Advocate* v. *Gammell's Trustees* (Court of Session, Outer House, April 8, 1949, T.R. 129), the deed had been made in 1928 and the settlor had died in 1946. The Revenue maintained that on his death the direction to accumulate above mentioned became invalid under Section 1 of the Accumulations Act, 1800, which prohibited accumulations for any longer term that the life of the settlor, and that from the date of death the right to receive the surplus income passed to the residuary legatee. A second contention was that Estate Duty was payable upon the whole property held by the trustees, including accumulations of surplus income, but excluding certain items as to which there was no dispute. As regards the first contention, it was argued for the Revenue that whilst the deed contained no express directions to accumulate income there was an implied one. As a matter of fact, there had been no accumulations of surplus income, the net income of the estate being insufficient to meet expenditure.

Lord Blades found no direction to accumulate but only a direction to apply accumulations of income to the creation of a reserve fund for maintenance, etc. Even if the clause was read as including an implied direction to accumulate, there had been no surplus income, and any claim to Estate Duty based upon the passing of a beneficial interest failed. There had been, he said, no passing within Section 1 of the Finance Act, 1894, and, although the Revenue relied not on Section 1 but on Section 2 (1) (*b*), which deals with cases where property is to be "deemed to pass," it was necessary in order for the latter to apply to show that the "deceased or any other person" had an interest ceasing on the death of the deceased. As to this, he held that no interest passed, the settlor having parted with his whole interest on the execution of the deed, and the persons beneficially interested after the death were the same as those interested before.

Estate duty—Settlement under will—Protected life interest—Power of advancement with consent of tenant-for-life to latter's issue—Whether if proposed advance made estate duty payable thereon on death of tenant-for-life—Opinion of Commissioners of Inland Revenue that if proposed advance made estate duty payable and trustees accountable—Summons to determine, inter alia, *whether this correct—Commissioners made party to summons—No present claim for duty—Whether valid grounds for joining Commissioners as defendants.*

In *In re Barnato (deceased)* (Ch. D., July 20, 1948, C.A., February 11, 1949, T.R. 97), the essential facts were as set out in the heading. Harman, J., and a unanimous Court of Appeal agreed that as no present claim to estate duty had been or could be made the question was a hypothetical one which might never have to be determined,

(*continued on page 186, col. 3*)

The Month in the City

New Low for Equities

Things have not been going well for the "bulls" in the past month. It may be recalled that May had brought a modest decline in all markets, except those for irredeemable Government securities and gold mining shares. The issue of Gas Stock, after causing a rise in the Funds, had produced a net fall of about ½ point in the gilt-edged index of the *Financial Times*. This index had dragged down with it the *Financial Times* fixed interest index, though with a lag. By the middle of June the fall in the former index was more than a further point, to 112.51, while the latter had dropped over 1¾ points to below 132.

There is here clear evidence of the effect of a rise—a very moderate rise—in the rate of interest on all securities, and it, no doubt, contributed something to the renewed decline in equities, which by the same date had twice carried the *Financial Times* index below the previous post-war low of 104.2, touched momentarily during the sterling convertibility crisis of August, 1947. At these levels this index was at the worst since November, 1943.

However, influences other than the rate of interest have also depressed ordinary share quotations. Labour troubles in which the Government has secured only a partial success after long delay; pessimistic statements from company chairmen on the prospects for British exports (see below); drops in reported profits, especially among exporters; talk at Blackpool not only of general powers to nationalise any industry which the Government considers ripe for such treatment, but of the perpetuation of control of all industry still in private hands: all these threaten not only holders of equities but the whole economy. Add to these forces the effects of a fresh slump on Wall Street, and the growing conviction that the authorities here have in hand no prescription for dealing with their troubles: it then does not become surprising that liquidity is preferred for the time being.

Threat to the Funds

If the foregoing briefly outlines some of the forces affecting one side of the market, it largely ignores those that are responsible for the fall in fixed interest stocks. If what we faced were a depression of the classical model one might reasonably look for a drawing-in of horns by industry—a fall in the demand for capital, and a resultant tendency for the rate of interest to fall. But that is not the pattern on this occasion. There are many signs that the total programme of capital expenditure will outrun the aggregate of company and personal savings and the budget surplus, thus favouring a rise in the rate of interest. There is also a direct threat to fixed interest stocks in the growing talk of an early devaluation of the pound against the dollar, either as part of a planned adjustment of soft currency values or by pressure of events should a failure of dollar exports cause substantial losses of our gold and dollar reserves. The values of fixed interest securities will also be adversely affected by the need of the nationalised industries to raise money, by further issues of Gas Stock and, less directly, by the fact that companies in need of money are more likely to issue fixed interest stocks now that equities have fallen sharply.

The talk of devaluation may very easily be premature, and few people suppose that the rate of interest will rise really sharply. But a general sagging of gilt-edged towards the point at which the real yield is nearer 3½ per cent. than 3 per cent. would be quite sufficient to keep markets depressed for a long period. A sharp movement in this direction has occurred in the past ten days. The first half of the month brought a rise of 2s. per cent. in the yield on Old Consols to 3.17 per cent. This figure is now 3.26, while the gilt-edged index is 110.76, that for fixed interest 129.58, and that for equities 101.6. If one bases both the fixed interest and the equities indexes on July, 1935, the difference is under 7½ points in favour of the latter. With July, 1935, taken as the base period these two indexes last crossed in April-May, 1943.

Courtaulds' Replacement Costs

The preliminary statement of Courtaulds for the year to March 31 shows a rise in profit before tax of almost one-third, to £5,933,000 odd. Despite this there is a fall in the total tax liability, which is further reduced by adjustments from earlier years, with the result that the net amount available is almost doubled at £3,182,939. These are consolidated figures; £746,000 is retained by the subsidiaries, against £304,600 in the previous period. The reasons for this increase are not at present apparent, but it means that after maintaining dividends and providing £1,477,622, being the estimated amount necessary to transfer to a reserve towards increased cost of replacement on the basis of current price levels, the carry-forward of the parent is reduced by just over £250,000. The report must be awaited for a further explanation of the figures. Meanwhile, lest an unduly favourable impression should be created by the rise in total earnings, the board state that the sellers' market abroad is weakening, and that the increase in profits in the export field is unlikely to be maintained.

Export Difficulties

Pessimistic statements about exports are common form now for the chairmen of large concerns operating largely in the export market. The chairmen of Dunlop, I.C.I., and some engineering firms have spoken in this way. The Blue Circle group of cement companies has so far experienced no fall in demand, but the chairman thinks it wise to state that he does not expect the present level of exports, which seem to have accounted for 80 per cent. of gross profit, to continue indefinitely. Apart from any question of satiating the demand, the urge for self-sufficiency is causing a number of the group's oversea customers to erect their own plants. In the long run action of this kind will be a serious threat to exports, not only of cement but also of other not very highly finished products.

The Erfdeel Borehole

Speculators have been provided in the past few weeks with a warning in the grand manner by the experience at Erfdeel on the property of Free State Gold Areas. Here, after more than one rather disappointing strike, a deflection from one borehole struck a pocket giving a result of 56,105 inch-pennyweights, the richest ever found on the Rand—using that word in its widest sense. Individual share prices leapt in both Johannesburg and London. This was almost immediately followed by a rumour of an even richer strike, but in fact all that has been established so far is that further deflections at Erfdeel have shown 231 and 176 inch-pennyweights. Prices appear to be on the way back to their earlier level, and the only matter for congratulation is that very little of the speculation originated in this country.

Recent Tax Cases—*(Continued from page 185.)*

and that the Commissioners of Inland Revenue had therefore been improperly joined.

Had the decision been otherwise, it would apparently have had the somewhat Gilbertian result that the deviser of a scheme "for reducing the burden of taxation" would be able to go to the Courts to find out in advance whether it would achieve its purpose. There was, however, no element of that kind present in this case.

Points from Published Accounts

What is a Profit?

The answer to this question, as supplied by the accounts of Broom & Wade, is that it is a balance from trading account remaining after depreciation, directors' remuneration, employees' pension fund provision, and an "additional provision for deferred repairs." It also includes investment income and a stock depreciation reserve of £33,243 no longer required, the balance being brought down to profit and loss appropriation account. If this interpretation is deemed ungenerous it should be pointed out that a profit and loss appropriation account is precisely what it says it is—a profit (or a loss) appropriation account. In this instance it is regarded as a profit subject to tax, but the figure struck is not comparable with that of the previous year because of the exceptional debit and credit mentioned, and also because of the much lower tax provision. Actually, trading profits have fallen from £407,537 to £342,968, and there is an attendant drop in the tax on profits of the year from £206,747 to £139,290.

Accounts as a Publicity Medium

William Asquith, the Halifax designers and producers of drilling and boring machines, have produced an excellent report in booklet form. Relegation of the consolidated profit and loss account to the last page is open to criticism, perhaps, though it must be said that the narrative-cum-tabular form of presentation is commendable. A net balance attributable to the parent is struck. From this is deducted the profits retained by the subsidiaries, and to the residue is added the previous year's unappropriated balance plus a tax reserve released by the change in the accounting period. The dividend disbursements are then detailed, and shareholders are thus given an immediate picture of the true cover for their dividend. The glossy cover of the report includes an aerial view of the works, pictures of three machines made by the company, and another break-up of "where the money goes." There has been a wise choice of type, with the subheadings and figures standing our clearly. The practice of publicising a company's business in a report is not original, but it is undoubtedly appreciated by shareholders and in some instances can have a beneficial effect on the order book.

A Surplus from Stock Revaluation

Amalgamated Cotton Mills Trust has in the past valued spinning process stocks at nominal values. If the opening and closing stocks in the past year had been valued at cost, being the basis now used for income-tax purposes, the trading profit for the year would have been increased by £105,343. The corresponding increase in the trading profit for the previous year would have been £34,742. A footnote to the accounts states that it is proposed to adopt a cost basis for such stocks from now on; the appropriate stocks at the year-end have been revalued accordingly and the surplus arising, amounting to £239,188, has been transferred to stock reserve.

British Lion Film

When this company's accounts were published last September they recorded a net profit of £81,724. The statutory note to the profit and loss account stated that in addition a profit had been made by one subsidiary, the other two having made neither profit nor loss. Said *The Investors' Chronicle* in a recent article : " Clearly the consolidated profit and loss account was, by all the rules of arithmetic and logic, destined to show a net profit of more than £81,724. Yet the group surplus now returned is only £43,843. . . . The clue to this confounding of Euclid is to be found in the auditors' report, which notes that the consolidated profit and loss account ' incorporates the adjustments mentioned in paragraph 10 of the chairman's statement.' "

We can skip the point that it is the auditors' normal duty to certify accounts and not to cross-reference the chairman's speech. Turning to the chairman's statement, we find that he said :

> The published profit and loss account of the parent company disclosed a profit of £184,054. . . . Only £103,676 of this profit has been included in the consolidated profit of £209,315. The difference of £80,378 represents certain items written back in the light of present information, namely, distribution fees on our own films upon which we expect to make a loss, and fees taken in advance of receipt on joint production of films.

Not surprisingly, *The Investors' Chronicle* is amazed at the divergence between the parent and consolidated accounts, and says that this really will not do. " Either the parent's accounts were drawn up properly in the first place, or they were not. If they were, then their full content should have been incorporated in the group accounts. If they were not, then they should be withdrawn and new accounts substituted. As it is, we have the incredible position that dealings have been taking place in the shares for over six months on the basis of accounts which are now admitted to have been misleading. . . . If this procedure passes, it will be open to any company to publish first a holding company statement and then, after an interval, a consolidated statement conflicting with it. Indeed, there will be nothing to stop such divergent documents from being issued simultaneously." Cases of this kind are, fortunately for the accounting profession, few and far between.

Shipping Secrecy

Full advantage of the cloak of secrecy offered to shipowners is taken by Houlder Line, whose accounts are in the best, or worst, pre-Cohen tradition. Net profit is struck after undisclosed deductions for depreciation and deferred repairs (vitally important items for shareholders) and the cover for the Ordinary dividend is far less than what would be expected with Cohenised accounts. The fleet is shown at cost less amounts written off, while on the other side of the balance-sheet reserve accounts are lumped together and include the reserve for taxation on profits for the year, while the provision for deferred repairs is included with creditors. As might be expected, the net profit includes estimates (certified by officials of the company) to December 31, 1948, on uncompleted voyages. The chairman's speech accompanies the report. He mentions the meeting date, but there is no clue as to where and at what time this takes place ! In the past the board has prided itself on holding the annual meeting not later than the end of January, but as the chairman says, a meeting on January 28, in respect of a financial year ended December 31, requires no apology.

Ashton Brothers & Co.

We regret that the May issue of ACCOUNTANCY contained inaccuracies in the note on the accounts of Ashton Brothers & Co. Contrary to the implication of our note, the accounts show clearly the parent's net profit and the group net profit and the amount of the directors' remuneration. In the last sentence of our note we made a comparison between the dividend and directors' remuneration, but the former figure was taken net and the latter figure gross, so that the comparison was vitiated. The size of the dividend is explained as being due to the general undertaking given by industry for the limitation of dividends.

Companies' Winding-Up Forms—Scotland

An Act of Sederunt, which came into operation on June 4, makes no change in existing practice, but provides forms to be issued in the winding-up of companies in Scotland previously prescribed by the Board of Trade but revoked in 1949 and now incorporated in rules only applicable to England. The Act of Sederunt is S.I. 1949 No. 1065 (The Act of Sederunt The Companies' (Winding-up) Forms, 1949).

Publications

MECHANISED ACCOUNTING AND THE AUDITOR. Report of the Mechanised Accounting Sub-Committee of the Institute of Chartered Accountants in England and Wales. (*Institute of Chartered Accountants, London. Price 2s. net.*)

Pronouncements *ex cathedra* always merit serious attention, and this booklet issued under the auspices of the Institute of Chartered Accountants is no exception. Most accountants when first confronted with an array of machines and the associated stationery must have wondered how the introduction of such equipment would affect the audit programme. The answer is to be found in this publication. After dealing with the basis of mechanisation and general audit considerations, it gives several examples of specific difficulties encountered in auditing mechanised accounts.

Circumstances which should govern the introduction of machines are frankly and concisely discussed. The *cons* as well as the *pros* of mechanisation are set out from the point of view of the accountant—a welcome antidote to one-sided eulogies of mechanisation coming from interested parties.

Under " General Audit Considerations " the mutual benefit which can be derived from consultation with the auditor on the introduction of office machinery is clearly demonstrated. So, too, is the necessity for auditors to become acquainted with the development of machines and mechanised systems.

The notes on " Fraud " might be regarded as slightly optimistic, and it would be interesting to read the authors' opinions on the possibilities of this subject in a system which is " one hundred per cent. punched cards."

The final section, " Specific Audit Difficulties," would of itself justify publication. Seven instances of differences between manual and mechanised methods which cause difficulties in auditing are discussed, and in each case the suggested remedies are given.

The booklet should, as stated in its foreword, be read by both practitioner and student, and accountants in industry should be armed with a knowledge of its contents. There are no wasted words in this pamphlet and it is a matter of regret that there is not more of it. It would be extremely useful to have similar authoritative guidance on a matter which is closely linked with mechanised accounts and which is referred to in the concluding paragraph, namely, the requirements of the Companies Act, 1948, relating to the keeping of proper books of account.

R. N. B.

TENANT-RIGHT VALUATION AND CURRENT LEGISLATION. A supplement to *Tenant-Right Valuation in History and Modern Practice*. By Donald R. Denman, M.A., M.SC., PH.D. (*W. Heffer & Sons, Ltd., Cambridge. Price 5s. net.*)

The principles of tenant-right have undergone far-reaching amendment both by the Agriculture Act, 1947, and by the Agricultural Holdings Act, 1948. No longer does local custom play such a traditional part in the relationship between landlord and tenant ; the range of tenant-right for which a tenant may receive compensation from his landlord is now (subject to written agreement) determined by Statute.

This new situation has been clearly explained by Dr. Denman in his recent publication. Although this book supplements an earlier work, it is a self-contained summary of the new law. Its value to the accountant is not so much that it describes the process of valuing tenant-right, but that it emphasises so well the new financial provisions between agricultural landlords and their farming tenants.

Attention is drawn to the model " repairs " clause introduced by the Agricultural Holdings Act, 1948. For too long, certain repairs to farm buildings have been " border-line " and caused needless friction. Who should renew broken or cracked tiles or slates ? Should the cost of repairs and replacement to floor-boards be borne by landlord or tenant ? Who should keep the farmhouse and buildings insured ? These are a few of the many questions now determined by law, variable only by written agreement.

There has yet hardly been time to appreciate the major financial implications of these Acts of 1947 and 1948. This book is a timely reminder of the large claims for compensation and dilapidations that can now be made whenever a farm changes hands. Landlords and farmers alike can rely upon an entirely new set of regulations as a basis for their claims. The standards set are deliberately high. In consequence, the falling short by either party of his statutory duties may give rise to a money payment that is far from insignificant.

Now that farmers are no longer assessable to income tax under Schedule B, an increasing number of accountants are engaged in preparing farm accounts for the purpose of Schedule D assessment. Although in most cases a professional valuer is employed to make the annual stock-taking valuation, the accountant has to have a working knowledge of the principles of tenant-right. It is no exaggeration to say that without a clear conception of " good estate management " and " good husbandry " as now defined, no landed property accounts (whether for landowners or for tenant farmers) can be entirely accurate. Dr. Denman's *Tenant-Right Valuation and Current Legislation* is confidently recommended to those whose practice embraces estate and farm accounts or who have to advise their clients on the financial aspects of tenant-right.

W. W. W.

BOOKS RECEIVED

AGRICULTURAL LAW AND TENANT RIGHT. By Clement E. Davies, K.C., M.P., and N. E. Mustoe, M.A., LL.B., Barrister-at-Law. Fourth edition by N. E. Mustoe and R. H. Wood, F.R.I.C.S. (*The Estates Gazette, Ltd., London. Price £2 15s. net.*)

STATISTICS AND THEIR APPLICATION TO COMMERCE. By A. Lester Boddington. Ninth edition. With chapters on index numbers by A. J. H. Morrell, M.A. (*H.F.L. (Publishers), Ltd., London. Price 18s. net.*)

SUMMARY OF STATUTORY AND OTHER REQUIREMENTS IN ANNUAL ACCOUNTS OF COMPANIES. (*Gee & Co. (Publishers), Ltd., London. Price 5s. net.*)

JORDANS' MODERN BOOK-KEEPING. By Frank H. Jones, F.L.A.A., A.C.I.S. Part I. Second edition. (*Jordan & Sons, Ltd., London. Price 6s. net.*)

PRINCIPLES OF AUDITING WITH TYPICAL QUESTIONS AND ANSWERS. By E. Miles Taylor, F.C.A., F.S.A.A., and C. E. Perry, F.C.A., F.S.A.A. Eleventh edition revised by A. C. Simmonds, A.S.A.A. (*Textbooks, Ltd., and British College of Accountancy, Ltd., London. Price 15s. net.*)

AUDITS. By Sir Arthur E. Cutforth, C.B.E., F.C.A. Tenth (revised) edition by Alfred Palmer, A.S.A.A., and J. C. Crawford, B.COM., C.A. (*Gee & Company (Publishers), Ltd., London. Price 15s. net.*)

PALMER'S EXAMINATION NOTE BOOK for Accountancy and Secretarial Students. By Alfred Palmer, A.S.A.A., F.C.C.S. Sixth Edition. (*Gee & Co. (Publishers), Ltd., London. Price 12s. 6d. net.*)

GENERAL FINANCIAL KNOWLEDGE. By E. Miles Taylor, F.C.A., F.S.A.A., and Charles L. Lawton, M.SC. (ECON.), A.C.A. Fourth edition by E. Miles Taylor and A. H. Coles, A.C.I.S. (*Textbooks, Ltd., London. Price 17s. 6d. net.*)

Legal Notes

Will—Gift to trustees as trustees—Oral wish that trustees are to take any surplus beneficially.

"It is a well-settled principle of law," says Vaisey, J., in *Re Rees' Will Trusts, Williams* v. *Hopkins* (1949, 1 All E.R. 609), "that if, on the true construction of a will, a gift is made to a person as a trustee, evidence is not admissible to show that he was intended to take beneficially." In that case the testator appointed an old friend and a trusted legal adviser as executors and trustees of his will and referred to them in the will as "my trustees." He devised and bequeathed all his property, subject to payment of his funeral and testamentary expenses and debts, "to my trustees absolutely, they well knowing my wishes concerning the same." Later in the will was a direction to the trustees to permit his brother during his life to have the rents and profits of certain specified property. It was proved to the satisfaction of Vaisey, J., by an affidavit of one of the trustees, that the testator had orally communicated to them his desire that they should have his property subject to the specified life interest of his brother, and subject to making certain gifts, which he desired them to implement, in favour of specified individuals and charities, and that they should keep the surplus for their own use. The Court, however, held that the question was one of construction of the will, and as, by the will, the property was devised and bequeathed to them as trustees, they could take nothing beneficially. They became trustees for the beneficiaries indicated in the trustee's affidavit, and, as regards the surplus, for the statutory next of kin of the testator.

Damages—Assessment of loss of earnings—Whether amount of income tax should be deducted in assessing damages.

Income tax is not payable on damages recovered in an action for negligence. In such an action the injured plaintiff is permitted to include in his damages a sum representing the future earnings he has lost by reason of his injuries. Should the amount of the income tax, which would have been payable in respect of those earnings, be deducted by the Court in assessing the damages? If it is not deducted the plaintiff will be better off financially than if the accident had not occurred. Nevertheless in *Billingham* v. *Hughes* (1949, 1 All E.R. 684) the Court of Appeal has held that the amount of the income tax is not to be deducted. The practice to the contrary is too well established. The same result also applies in a claim for damages for wrongful dismissal (*Fairholme* v. *Firth & Brown, Ltd.*, 149 L.T. 332). On the other hand, in Scotland there have been two decisions upon this point, one either way. (See also ACCOUNTANCY, April, 1949, pages 87-88.)

Renunciation of legacy—Right to retract.

In *Re Cranstoun's Will Trusts, Gibbs* v. *Home of Rest for Horses* (1949, 1 All E.R. 871), Romer, J., followed the observations of Swinfen Eady, J., in *Re Young* (1913, 1 Ch. 272) and decided that a person who renounces a legacy is still entitled to alter his mind and claim the legacy provided that no one has in the meantime altered his position in consequence of that renunciation. This is in accordance with general principles. A person does not lose a claim which he may have against another person unless he agrees to waive it for valuable consideration, or unless he is estopped from relying on his claim. An estoppel is not created by a mere statement that he does not intend to claim. It is necessary, in order to create an estoppel, that another party should change his position on the faith of the statement. In this case, a testatrix had devised a house to trustees on trust to permit the Home of Rest for Horses to have the use and occupation thereof, and she also bequeathed to the Home her residuary estate. In 1937 the trustees of the will were both dead, the administration of the estate had not been completed, and the Home was the first person entitled to a grant of letters of administration *de bonis non*. The Home was under the misapprehension that it could not renounce its right to take a grant of letters of administration without also renouncing the benefits given to it by the will, and that if it took a grant it might be liable for the debts of the testatrix beyond the assets of her estate. Accordingly the Home renounced all claims to the estate. Romer, J., now held that it was entitled to retract the renunciation of 1937 and to claim the benefits given to it under the will.

Accounting Lectures in Australian Universities

Mr. F. Sewell Bray, F.C.A., F.S.A.A. Joint Editor of *Accounting Research* and a Senior Nuffield Research Fellow in the Department of Applied Economics of the University of Cambridge, has been awarded a travel grant by the British Council to enable him to visit Australia in the latter part of this year. The award was sponsored by the universities of Australia in collaboration with the Commonwealth Institute of Accountants. Mr. Sewell Bray has been asked to examine current developments in accounting with representatives of the teaching and accountancy professions in the various States. He will deliver an academic lecture in each of the Australian universities. He has also been invited to submit a paper on "Accounting and Economic Concepts" at the Australian Congress on Accounting to be held in Sydney during November, 1949.

The best application of accounting knowledge is assisted by sustained academic study and the progress of research. For many years the Commonwealth Institute of Accountants has been associated with the universities in furthering the development of accountancy education and research. It accepts the examinations in accounting and legal subjects of most universities and has endowed an annual research lecture in each of the six State universities and at Canberra University College. This association has provoked an interest in the refinement of accounting theory and the need for a deeper basis of training. Moreover, by co-operating with the Department of Education in each State, the Commonwealth Institute hopes to secure that the best possible instruction is provided at the stage when an interest in accountancy is first aroused.

Management Bodies

An agreement designed for a merger between the British Institute of Management and the Institute of Industrial Administration by two stages has just been signed.

During the first stage, which comes into effect immediately, the Institute of Industrial Administration, which has been in existence for thirty years and has a membership of 6,000, will retain its separate identity and its professional activities will continue unchanged, but its executive management, subject to the policy control of its own Council, will be undertaken by the staff of the British Institute of Management.

The merger will be completed in the second stage, which is expected to come into effect in two or three years' time. Meanwhile, the British Institute of Management will encourage managers desiring professional qualifications in General Management to join the Institute of Industrial Administration.

An agreement for co-operation on matters of common interest has recently been signed between the British Institute of Management and the Office Management Association. The independent status of the Office Management Association is unaffected by this agreement.

THE SOCIETY OF

Incorporated Accountants

EXTRAORDINARY GENERAL MEETING

CONSTITUTION OF THE COUNCIL

AN EXTRAORDINARY GENERAL MEETING OF the Society was held after the annual general meeting on May 25. Sir Frederick Alban, the President, proposing the following resolution, said that it had the effect of enlarging the Council to thirty-eight members. Associates as well as Fellows would be eligible. It had been suggested that each District Society should be represented. But members of the Council were not delegates: their responsibility was to the whole body of members. The Council proposed to appoint additional Council members under Article 48, to hold office until the next general meeting. They would all welcome the proposal to enable overseas members to contribute more directly to the work of the Council.

The resolution was seconded by Mr. A. Stuart Allen (Vice-President).

RESOLUTION

"(1) That the Articles of Association of the Society be altered in manner following, that is to say:

By deleting the existing Articles 40, 49 and 56 and substituting therefor new Articles to be numbered 40, 49 and 56 respectively as follows:

Constitution of Council

40. (*a*) The Council shall consist of not more than thirty-eight members of whom not more than thirty-six shall be elected from among the members of the Society in the United Kingdom and Eire, and two shall in any event be elected from among the members of the Scottish Institute of Accountants (being the Scottish Branch of the Society) by the members for the time being of such Institute.

(*b*) In addition to the members of the Council referred to in sub-paragraph (*a*) hereof, any member of the Society from outside the United Kingdom and Eire, who may be visiting the United Kingdom and who is nominated by his Overseas Branch for the purpose, may be appointed by the Council as a temporary *ex-officio* member of the Council for such period or periods, not exceeding twelve months in all, as the Council may determine.

Members of Council to retire in rotation

49. (*a*) At the ordinary general meeting in every year, one-third of the members of the Council elected from among the members of the Society in the United Kingdom and Eire pursuant to Article 40 (*a*), or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office. The members so to retire shall be those members who have been longest in office since their last election, and the meeting may elect them if qualified, or elect qualified members to fill their places.

(*b*) In the event of either of the two members elected by the Scottish Institute of Accountants at any time ceasing to be a member of the Council, the members of the Scottish Institute of Accountants shall elect his successor from among their members.

Vacation of office

56. Every member of the Council shall vacate his office on ceasing to be a member of the Society or being suspended for any period from membership of the Society, or being censured by the Council or the Disciplinary Committee, or being bankrupt, or suspending payment, or compounding with his creditors, or being found of unsound mind, or having a Receiver appointed by the Court of Protection, or if absent from meetings of the Council for more than twelve consecutive months without the consent of the Council."

The President said that the resolutions had the effect of enlarging the Council to thirty-eight members Associates as well as Fellows would be eligible. It had been suggested that each District Society should be represented. But members of the Council were not delegates: their responsibility was to the whole body of members. The Council proposed to appoint additional Council members under Article 48, to hold office until the next general meeting. They would all welcome the proposal to enable overseas members to contribute more directly to the work of the Council.

Mr. J. G. Huggins (Wallington) thought that in an endeavour to secure equality, inequality would prevail if the Articles were changed as proposed. The privileges of the London members and of Fellows would be taken away, leaving them only the privilege of paying an increased subscription. Members not in practice might also be appointed in quite considerable numbers. Theirs was a professional organisation, and a profession could be carried out completely only by a member in practice. However high the position of an employed member, he must ultimately act in accordance with his instructions, whereas a member in practice might, and he hoped always would, decline to act for a client if he did not approve the procedure.

Mr. G. A. Watkins (Swansea) said that if a member could not become a Fellow he saw no reason why he should become a member of the Council.

Mr. H. Basil Sheasby (London) thought the last two speakers were taking a very narrow view. It was a good thing in any organisation to have the Council drawn from as wide a range as was possible. Why should not the Associate, who had a very big finger in the accountancy pie, be one of those who could share in the major deliberations of the body?

Mr. F. L. Roberts (Tolworth) associated himself with the remarks of Mr. Sheasby.

Mr. R. R. Davies (Cardiff) said that at the end of 1948 the membership of the Society was 8,182, of which the Associates numbered 6,371. Surely they should have some part in the deliberations of the Council. Otherwise the Council was drawn from only 1,800 members, and that was hardly fair representation of the members.

Mr. J. E. Spoors (Newcastle-on-Tyne) supported the resolution, especially with regard to increasing the number of the Council, but questioned the idea of Scotland sending two delegates to the Council.

Mr. Richard A. Witty (London), Chairman of the Articles Committee, said that the points included in the proposed amendments to the Articles had been put forward by a large number of their members, and represented, he thought, the general views of members. After all, at the annual meeting they had the right once in three years to throw out any member of the Council if they did not want him to continue in office. On the question of Associates becoming Council members, Associates contributed a good deal more to the funds of the Society than did the total number of the Fellows. Two members of the Council represented Scotland under an old agreement, made in about 1899, as an agreement binding for all time. They had real benefit from the advice of the members who came from Scotland. He thought that they should not make any attempt to alter that agreement, because if they did it would certainly give Scotland a very real grievance.

Resolution No. (1) was carried *nem con.*

Another resolution, making purely consequential changes in other Articles, was moved, seconded and carried.

MEMBERSHIP

THE FOLLOWING PROMOTIONS IN, AND ADDITIONS to, the membership of the Society have been completed in the period March 12 to June 9, 1949 :

ASSOCIATES TO FELLOWS

ADAMS, Wilfrid George (*Temple, Gothard & Co.*), London. AYRES, Horace George (*Allen, Baldry, Holman & Best*), London. BARNES, Bernard, C.B., M.C., Accountant, Ministry of Fuel & Power, London. BENSTED, Thomas David Randall (*C. Percy Barrowcliff & Co.*), Middlesbrough. BRODIE, Robert Martin, Hull. BROWN, John Herbert (*Dixon, Brown & Co.*), Hexham. BURKITT, Stanley Francis (*Stanley Gorrie, Whitson & Burkitt*), London. CHADWICK, William Hugh (*Barber, Bellhouse & Co.*), Thomson's Falls, Kenya Colony. DAVIES, David Emrys (*Brinley Bowen, Mills & Co.*), Swansea. DIMMOCK, Stanley Godfrey (*Burston, Dimmock & Mason*), Bridgwater. ELLIOTT, Henry Robert, Worthing. FORSTER, Joseph Isaac (*Barwick, Forster & Co.*), Keswick. GOULD, Arthur Jack, Newquay. GREEN, Charles Henry (*Clarkson, Hyde & Co.*), London. GRIER, William Matthew, Town Chamberlain, Alloa. GUNN, Walter Percy (*V. Wolfgang Bell & Co.*), London. HACKETT, George (*Alexr. Hannah & Co.*), Liverpool. HIRJI-KHURSED, Histasp Sorabji, B.A. (*H. Hirji-Khursed & Co.*), Bombay. KEELING, Maurice George Ratcliffe (*Keeling & Co.*), London. KNOWLES, Robert Bernard (*Herriot & Hay*), Edinburgh. LIMEHOUSE, Arthur Eric (*A. E. Limehouse & Co.*), Rugby. MARRINER, Harry (*S. R. Fuller & Co.*), Leeds. MASTER, Nariman Fakirji (*S. R. Batliboi & Co.*), Calcutta. MORGAN, John Alfred William Thomas (*W. C. Back & Co.*), Newport, Isle of Wight. PEDLEY, Albert (*Keens, Shay, Keens & Co.*), London. RAINBOW, Sydney Charles (*Keens, Shay, Keens & Co.*), Hitchin. RANDLE, Giles Noal (*G. N. Randle & Co.*), Sunderland. SAUNDERS, Gerard Charles (*Saunders & Haynes*), Durban. SINNOTT, Ernest, Chief Accountant, South Eastern Electricity Board, Hove. SNOWBALL, Sydney (*S. R. Fuller & Co.*), Leeds. TAYLER, Frederick John (*H. E. Mattinson and Partners*), Durban. THURLOW, Cyril Edward (*Evans Smith, Boothroyd & Co.*), London.

ASSOCIATES

CHARLOTTES, John Frederick, with T. Harold Platts & Co., Birmingham. COWLING, Morris, with P. M. George & Co., Durban. DUNNE, Walter Edward, with George Mackeurtan, Son & Crosoer, Durban. DUNNINGHAM, Gordon Watson, formerly with Stewart, Steyn & Co., Johannesburg. FAIRBAIRN, Walter John Gerson, Durban. FRIEDRICHS, William Edward, formerly with Peat, Marwick, Mitchell & Co., Pretoria. GIBBINGS, Thomas Ashley, with Warren & Hofmeyr, Pretoria. HAWORTH, Thomas, with Varley, Edmondson & Co., Clitheroe. JOWETT, George, with Firth, Parish & Clarke, Bradford. KILLIAN, Benjamin Christian, with Wolpert & Abrahams, Durban. McBRIDE, Thomas Alexander, with Douglas, Low & Co. Johannesburg. MACGREGOR, Ian Hutton, with Howard Pim & Hardy, Johannesburg. NICHOLSON, William, with Henry Yates, Preston. OTLEY, Peter Richard, with J. W. Wilkinson & Co., Doncaster. PEARCE, Laurence Ormsby, formerly with Goldby, Panchaud & Webber, Johannesburg. PITMAN, John Thomas, with Price, Waterhouse, Peat & Co., Johannesburg. POTTER, Lionel Arthur, with Cassleton Elliott & Co., London. ROBINSON, Gordon Philip, with Dean & Son, Stafford. ROSHOLT, Aanon Michael, with Goldby, Panchaud & Webber, Johannesburg. SILKE, Aubrey Samuel, Cape Town. SMITH, Alan Bosworth, Johannesburg. SPENCE, Peter Royce, with Douglas, Low & Co., Johannesburg. VAN DER HELSTRAETE, Marcel Lawrence, with Allen, Baldry, Holman & Best, London. WATERFALL, James Frederick, with Saffery, Sons & Co., London. WILDE, Peter Geoffrey, with Peplow & Hooker, Newton Abbot. WILKINSON, John Hastings (*Joseph W. Shepherd & Co.*), Manchester.

THE TOWN AND COUNTRY PLANNING ACT

A LUNCHEON OF THE INCORPORATED ACcountants' London and District Society was held on May 3, the Chairman, Mr. T. H. Nicholson, F.S.A.A., in the chair. (We regret that pressure upon space prevented our reporting this function in our last issue.) Mr. D. C. Walker-Smith, M.P., a barrister-at-law, Member of Parliament for Hertford and Vice-President of the Urban District Councils Association, was the guest speaker.

Among the guests at the luncheon were the following members of the Council of the Society of Incorporated Accountants: Sir Frederick Alban, C.B.E., J.P. (President of the Society), Mr. C. P. Barrowcliff, Mr. R. Wilson Bartlett, J.P., D.L. (Past President), Mr. T. H. Platts, Mr. Joseph Stephenson, O.B.E., and Mr. Percy Toothill (Past President).

PLANNING CONTROL

Mr. Walker-Smith said that the first thing to be covered in a short talk on the Town and Country Planning Act—in which a great deal of compression was inevitable—was planning control. Not planning control, but the thoroughness with which it was now applied, was new. The general principle was that all development undertaken after July 1, 1948, required a planning permission from the local planning authority. "Development" was very widely defined. Broadly, it meant any building operation upon the land. But it also meant any material change in the use of land or of property upon it.

There were three main sets of exceptions. Some noted cases which constituted exceptions were set out in Section 12 of the Act; certain changes of use which could be made without planning permission were set out in the Use Classes Order; and there were twenty-one sorts of development—including the restoration of war damage—which could be carried out by permission given by the General Development Order.

Subject to those three classes of exception, all development, whether by way of building operation or change of use, required a planning permission. Every planning authority had three years from July, 1948, in which to make a development plan. That plan became the subject of a public local inquiry at which representations could be made, and then went to the Minister for his approval. Once the plan was in operation it would obviously be very difficult to get a planning permission to do anything which ran counter to it. Before the plan was in operation the local planning authority gave or withheld permission for particular forms of development in the light of what was expected to be in the plan. If a local planning authority refused permission there was a right of appeal before an inspector appointed by the Minister. The hearing took rather the same general form as that of an ordinary case in law, with evidence, speeches, cross-examination and so on.

DEVELOPMENT CHARGES

The second main question concerned development charges. All development for which planning permission was required was liable to the payment of a development charge. The charge was determined by the Central Land Board. The development value and development charge was the difference between the value of a piece of land or property with the benefit of planning permission and the value of the same piece of land or property without that benefit.

Certain cases were exempted from the liability to development charge. For instance, if one wished to convert a single dwelling house into flats, planning permission to do so was necessary, because that was development, but no development charge was levied because this case was exempted under the Act. In the same way, it was possible to enlarge an existing building by 10 per cent., or by 1,750 cubic feet

in the case of a dwelling house, if that was larger than the 10 per cent., without the payment of a development charge. There were also certain other more detailed exemptions from the general liability to development charge.

THE £300 MILLION FUND

The third head to be discussed was the £300 million fund. The word "compensation" was not officially applied to the fund because in the basic theory of the Act there was no compensation of right for the loss of development value. The fund had been set up to give payments to people whose interests in land were depreciated by reason of the Act—people whose development value now belonged to the State.

The amount of the claim was based on the loss of development value. That figure was arrived at by subtracting the restricted value of the land from the unrestricted value of the land. The unrestricted value of the land was not the value of the land as if one could do what one liked with it, but the value of the land as it would have been if the 1947 Act had not passed—that is, the value of the land at July 1, 1948, assuming that the old law had gone on. The restricted value was the value on the assumption that planning permission would be given for a certain few sorts of developments specified in the Third Schedule to the Act, but not for any others.

COMPULSORY ACQUISITION

Mr. Walker-Smith said that his last main topic was compulsory acquisition. The Act extended the powers of compulsory acquisition on the one hand, and modified the code of compensation for compulsory acquisition on the other.

Every development plan of a local planning authority would designate land as liable to compulsory purchase, and once land was designated in a development plan it would be very difficult to resist a compulsory purchase order made in respect of it. Secondly, the powers of local authorities were also extended to enable them to acquire land, not for any specific purpose but merely in order to enable them to see that the use of the land conformed to the development plan. Thirdly, extended power was given to the Minister of Works to acquire land for the public service, or otherwise for the purposes of any of his functions. Finally, power was given to the Central Land Board to acquire land compulsorily. That power was being, or could be, used as a weapon of enforcing the sale from vendor to purchaser of land at its existing use value.

The old basis of compensation was laid down in Section 2 of the 1919 Act, and was broadly the market value of the land as sold by a willing seller. A new principle of compensation had been introduced by Section 51 of the 1945 Act. There it was laid down that compensation would be assessed on the restricted use value of the land: that is to say, as if permission would be given only for those forms of development known as Third Schedule development, but not for any other. That had the effect of greatly diminishing the amount of development value which could be taken into account in the compulsory purchase of land. A further modification was that where freehold land was acquired it was by Statute subjected to a notional lease to exclude any inflated value that it might otherwise have on account of the right to vacant possession.

A vote of thanks to Mr. Walker-Smith was proposed by Mr. J. J. Elsden, who spoke of the inter-relationships between accountancy and law. Mr. Elsden referred to the difficulties in which such complicated legislation as that which had been so lucidly explained by the guest speaker could involve the unwary, who should not pretend to a lawyer's competence if not properly qualified to follow the lawyer's vocation, even though an extensive knowledge of the law was essential to them in their own field.

ACCOUNTANTS AND THE STRUCTURE OF INDUSTRY

THE ANNUAL DINNER OF THE SOUTH WALES and Monmouthshire District Society of Incorporated Accountants was held at the Whitehall Rooms, Park Hotel, Cardiff, on April 29. Mr. A. D. Thomas (President) was in the chair. The guests included the Lord Mayor of Cardiff (Alderman R. G. Robinson, J.P.) and the Lady Mayoress; the Deputy Mayor of Newport (Alderman W. F. E. Smith, J.P.) and the Deputy Mayoress; The Right Reverend The Lord Bishop of Llandaff; Sir Frederick Alban, C.B.E., J.P., F.S.A.A. (President of the Society of Incorporated Accountants) and Mr. A. A. Garrett (Secretary); Mr. D. Bernard Morgan, M.A., J.P. (President of the National Chamber of Trade); Mrs. A. D. Thomas; and numerous representatives of professional bodies, finance, education, commerce and industry in Cardiff and Newport.

The toast of "The Society of Incorporated Accountants" was proposed by Mr. D. Bernard Morgan, M.A., J.P. (President of the National Chamber of Trade), who paid tribute to the accountancy profession and the material contribution it had made to the integrity and principles attaching to British trade. In its university training scheme, the accountancy profession was recognising and showing regard for the traditions of the past based on the Greek idea that leisure was a time to be used for the training of the mind and for cultural improvement. He thought it was a very serious thing to-day that education was looked on merely as a means to qualify a person to earn a living. Those who took advantage of the arrangement would benefit from that wider vision which they could only receive at a university.

Chambers of trade always counted themselves fortunate if they could have an accountant as a secretary. The history of the Cardiff Chamber of Trade illustrated this.

Mr. Morgan mentioned the close association between Sir Frederick Alban and Mr. Gilbert Shepherd, immediate past President of the Institute of Chartered Accountants, and paid a tribute to the work of Sir Percy Thomas, the Society's architect. He coupled the name of Sir Frederick Alban with the toast of the Society.

Sir Frederick Alban, C.B.E., J.P., F.S.A.A. (President of the Society of Incorporated Accountants), replying to the toast, spoke of the transference on a large scale of separate individual units into all-embracing public authorities. It seemed inevitable that there would be a concentration of audit work in the hands of specialised auditors and a large extension of internal audit.

Interim arrangements for continuing the services of practising accountants were now coming to an end and thus important fields of work were being finally closed to them, with a consequent narrowing of the experience available in the future for their staffs. As a rough calculation, over 5,000 separate units which formerly had their own accountants and secretaries were being merged under nationalisation. The effect of this could only be far-reaching.

Sir Frederick also outlined the vocational selection system being adopted by the profession in America. The tests used seemed likely to succeed, and most of the firms in New York now recruited their staffs on the basis of these tests.

He thought Sir Stafford Cripps had now reached the conclusion that there could be no effective contribution to the financial stability of this country without a review of Government and local government expenditure.

Sir Frederick paid a tribute to the Inland Revenue officials. He was glad to see at the dinner Mr. R. Wilson Bartlett, past President of the Society, Mr. Robert Bell, President of the Irish Branch, and Mr. A. D. Thomas, Mr. Richard R. Davies and Mr. Tudor Davies, President, Vice-President and Honorary Secretary respectively of the District Society.

Mr. Richard R. Davies (Vice-President of the South Wales Society), proposing the toast of "Prosperity to South Wales and Monmouthshire," reviewed the changing industrial outlook of Wales and detailed

the 600 or so new industries that had come to Wales since 1938. The emphasis in industry to-day was upon more and more production, and it was here that accountants could play their part. There must be planning so that firms employed the most advanced forms of costing. Production depended finally upon personal effort. Accountants were anxious and eager to help the leaders of industry, who had a difficult task ahead of them.

The Lord Mayor of Cardiff (Alderman R. G. Robinson) replied to the toast in a lively speech which dealt with many aspects of Welsh industrial life. After an amusing reference to the presence of his "bosses" there—the City Treasurer, Mr. E. W. Barker, M.B.E., A.S.A.A., and the chairman of the Finance Committee, Sir William R. Williams—the Lord Mayor said it would be a tragedy if the great port of Cardiff, at one time the busiest coal-exporting port in the world, should have to close one or more of its docks or any of its coal hoists. Cardiff and the South Wales ports had proved to the Government during the war that they could handle all types of merchandise or food.

Another industry which had been neglected as far as Wales was concerned was the tourist industry.

He urged his hearers not to judge harshly the youth of to-day who had been reared in such difficult times, but to encourage and inspire in young men and women a love of their country and the Christian faith.

The toast of "The Guests" was proposed by the District Society President, Mr. A. D. Thomas. Responses were made by the Lord Bishop of Llandaff and Mr. Robert Bell (President of the Society of Incorporated Accountants in Ireland).

EXAMINATIONS

The Preliminary, Intermediate and Final Examinations of the Society will be held on November 15, 16 and 17, 1949, at London, Manchester, Leeds, Birmingham, Cardiff, Glasgow, Dublin, and Belfast.

Candidates are asked to obtain their application forms from the Honorary Secretary of their Branch or District Society.

Completed applications, with all relevant supporting documents and the fee, must be sent to the Secretary, Society of Incorporated Accountants, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2, not later than Monday, September 19, 1949.

The Society does not undertake to arrange hotel accommodation. Candidates must make their own arrangements in this respect.

DISTRICT SOCIETIES AND BRANCHES

SCOTTISH BRANCH

Meeting of Scottish Council

A MEETING OF THE COUNCIL OF THE SCOTTISH Institute of Accountants, the Scottish Branch of the Society, was held in Glasgow on June 7. Mr. D. R. Matheson, LL.B., presided. He welcomed Mr. W. A. Scott, C.A., F.S.A.A., Edinburgh, as a new member of the Council. He also referred to the honour conferred on Mr. J. D. Imrie, C.B.E., one of the members of the Council, on being appointed member of a Commission to enquire into financial relations of the Central and Local Governments of Trinidad and Tobago.

The resignation of Mr. Robert Milne, F.S.A.A., Glasgow, as a member of Council was received with regret. Mr. John Stirling, B.COM., B.L., F.S.A.A., Edinburgh, Chief Accountant of the Department of Health for Scotland, was co-opted in his place.

Reports by the Secretary, Mr. James Paterson, by the representatives on the London Council, by the President, and by the President of the Students' Society, Mr. Robert Fraser, were received and discussed.

LONDON

THE TWENTIETH ANNUAL GENERAL MEETING of the London and District Society was held at the Abercorn Rooms on June 14. Mr. T. H. Nicholson, F.S.A.A., Chairman of the District Society, referred to the varied character of the lectures held during the year and expressed the members' indebtedness to the lecturers. They were also grateful to the Students' Society for close co-operation in the arrangement of lectures. There was a record attendance at the lecture on the Companies Act, 1948, by Mr. P. J. Sykes, when the Right Hon. Lord Justice Cohen took the chair. They had also been favoured with very good speakers at the Luncheon Club.

The report and accounts were adopted. The retiring members of the Committee and the Honorary Auditor (Mr. C. B. Hewitt, F.S.A.A.) were re-elected. A vote of thanks to the Chairman was proposed by Sir Thomas Keens, D.L., J.P., F.S.A.A., and carried by acclamation.

At a subsequent meeting of the Committee, the following officers were elected: Chairman, Mr. R. N. Barnett; Vice-Chairman, Mr. A. T. Keens; Honorary Treasurer, Mr. J. A. Jackson.

BRADFORD

Annual Report

THERE WAS AN AGGREGATE INCREASE OF 50 members during the year. Particulars of membership are as follows: Fellows and Associates in practice 105, Fellows and Associates not in practice 141, Students 204; total 450.

The annual supper dance and the golf competition will be held during 1949-50.

The Society held a dinner on March 25. Sir Frederick J. Alban, C.B.E. (President of the Parent Society) attended, and there were present 100 members and guests.

Congratulations are extended to the students who were successful in passing the examinations of the Society—six in the Intermediate and fourteen in the Final.

During the Winter Session 12 lectures and meetings were held. These were also attended by the Bradford Chartered students, whilst their lectures were attended by some of our students. There was good average attendance, but a large number of new students have not yet attended the lectures. In their own interests they are advised to take advantage of the facilities provided, and principals should encourage them to attend.

A party of members and students visited the works of Edgar Allen & Co., Ltd., Sheffield, in November, 1948. We extend our thanks to the company for their hospitality on the occasion, and to Mr. J. W. Richardson for making the arrangements.

The President and Secretary have represented the Society at social functions of local professional and other kindred societies during the year.

LIVERPOOL

Annual Report

THE MEMBERSHIP AT MARCH 13, 1949, was: 62 Fellows, 277 Associates, 383 Students; total 722.

Good wishes are sent to 58 students serving in H.M. Forces.

With deep regret the Committee records the death of Mr. Edward S. Goulding, who joined the Society in 1896 and was for many years a member of the Committee, being Treasurer in 1905-1907 and President in 1934 and 1935.

Nine meetings have been held during the year. The Committee thanks the lecturers and those members who presided.

The Committee would appreciate closer support from members in practice, particularly at evening meetings and social functions, as contact between student and senior members is an essential factor of professional unity.

During the year, the Library was moved to the Municipal Buildings, and is working most satisfactorily. The Committee records its thanks to Mr. John Ainsworth for kindly providing facilities, and to members of his staff for its smooth running, and also to Miss Audrey Dean and Mr. F. W. Frodsham for their valuable work in

cataloguing and installing the Library in its new premises.

The Committee extends its congratulations to the Student Members who were successful at the examinations of the parent Society. Twenty passed the Final, and eighteen the Intermediate.

Members interested in research are requested to communicate with Mrs. B. Bramwell McCombe, of the Department of Economics, University of Liverpool. It is hoped in the near future to set up an Accountancy Research Committee.

The Society has been represented on the Council of the Liverpool Chamber of Commerce by the President, Mr. J. C. Summerskill, and Mr. Bertram Nelson, and on the Birkenhead Chamber by Mr. L. Bailey. Congratulations are extended to Mr. Bertram Nelson on his appointment as Vice-President of the Liverpool Chamber.

Since the inception of the universities scheme in 1945, twenty-four local candidates have been admitted to the course.

It is hoped that a number of articled clerks will proceed to the course, and that undergraduates now taking the course will become articled to members of the Society.

The Committee again thanks the members who have taken regular and frequent duties at the Liverpool headquarters of the Citizens' Advice Bureau, to advise applicants on their taxation difficulties. The Committee would welcome the names of other members prepared to assist in this useful work.

STUDENTS' SECTION

Thirty lectures were held on Saturday mornings and have been exceptionally well attended.

Several study groups were formed in June, 1948, and have continued helpfully since that date. Sincere thanks are due to Mr. S. Lerman for this useful work.

A dance held in February was enjoyed by over 300 students and friends.

On April 13, 1949, a football eleven met a team of Chartered Accountant Students. The match was won by Chartered Students.

Mr. H. R. Evans, A.S.A.A., has decided, with regret, not to seek re-election to the Committee.

Mr. F. T. Shacklady was co-opted to the Committee as an Intermediate Student, in place of Mr. J. H. Steele, who has become a Final Student.

PERSONAL NOTES

Mr. John D. Imrie, C.B.E., F.S.A.A., City Chamberlain of Edinburgh, has been appointed a member of a commission to inquire into the financial relationship between the Central Government and Local Government bodies in Trinidad and Tobago. In announcing this at a recent meeting of the Town Council, Lord Provost Sir Andrew Murray said that it was an outstanding compliment to the city and to one of its officials. The Council agreed to release Mr. Imrie for three months from the end of August.

Mr. R. E. Yeabsley, C.B.E., F.C.A., F.S.A.A., has been appointed by the Minister of Transport an additional member of the Transport Tribunal.

Mr. A. E. Middleton, L.C.C., F.S.A.A., has been appointed a member of the Thames Conservancy Board as a representative of the London County Council.

Mr. William Grieve Lumsden, A.S.A.A., Town Chamberlain of Motherwell and Wishaw, has been awarded M.B.E. in the Birthday Honours.

Messrs. Norfolk, Pawsey & Co., Incorporated Accountants, Clacton-on-Sea, have admitted to partnership Mr. S. G. Law, A.S.A.A.

Messrs. Wade Hustwick & Sons, Incorporated Accountants, announce that Mr. Wade Hustwick has retired from the partnership but is still available for interviews by appointment. The practice is being continued by the remaining partners at 95, Godwin Street, Bradford: telephone number 24936.

Messrs. R. Brooks & Co., Incorporated Accountants, Adelaide House, London Bridge, London, E.C.4, have changed their firm name to Brooks, Trueman & Wright.

REMOVALS

Mr. R. W. Atkin, A.C.A., A.S.A.A., practising under the style of Atkin & Co., has removed to 47, Arundel Street, Sheffield.

Messrs. Crumpton, Cappleman & Co., Incorporated Accountants, have removed to 23, Trinity House Lane, Hull.

Messrs. Lind & Co., Incorporated Accountants, have removed to 338, Streatham High Road, London, S.W.16.

OBITUARY

THOMAS JOHN GRIFFITHS

We regret to record that Mr. Thomas John Griffiths, F.S.A.A., died on May 30 after a prolonged illness. Mr. Griffiths was 50 years of age, and was in practice in Cardiff as a partner in the firm of J. Wallace Williams & Co., Incorporated Accountants. He served his articles with Mr. J. Wallace Williams, F.S.A.A., and became a member of the Society of Incorporated Accountants in 1926, being advanced to Fellowship in 1939. The practice is being continued by the remaining partners.

INCORPORATED ACCOUNTANTS' BENEVOLENT FUND

THE ANNUAL GENERAL MEETING OF SUBscribers and donors to the Incorporated Accountants' Benevolent Fund was held on May 25 at the Hall of the Chartered Auctioneers' and Estate Agents' Institute.

Sir Thomas Keens, D.L., President of the Fund, occupied the chair. In moving the adoption of the report and accounts for the year 1948 Sir Thomas said:

During 1948 the income under all headings increased by about 14 per cent., the amount added to the capital account was slightly larger than the corresponding amount for 1947—thanks mainly to a special gift of a debenture of the Society for £100—and the sum distributed in grants was increased. I extend my warm thanks to all contributors, both at home and overseas, to members who have made special donations, to the Trustees for their sympathetic and wise administration of the Fund, and to local Hon. Secretaries for their co-operation in developing interest in the Fund and in influencing contributions.

The number of cases in which grants were made was somewhat less than in 1947—due, I regret, to the passing of some of our beneficiaries, and, more happily, in other cases to a favourable change in circumstances. But I understand that new requests have been received recently, and again an extension of many current grants towards the maintenance and education of children is likely to be required from year to year until the children have left school.

We have been very touched by the thoughtful generosity of bodies of accountants in the Commonwealth in forwarding food parcels for our beneficiaries. I need hardly say how welcome these gifts were to elderly ladies and to widows with children, especially as the parcels arrived just before Christmas. On behalf of the recipients and of all who are interested in the Benevolent Fund I record my heartfelt thanks to our friends for their spontaneous kindness.

The report refers to a co-operative effort by a number of benevolent funds to provide comfortable homes for more senior people, to whom such funds extend help, and even for retired members who may be able to meet their own expenses. I am glad to report that quite recently there has been formed the Crossways Trust—a company limited by guarantee—which will run the homes; a house has been purchased and in a short time will be available for residents. The Incorporated Accountants' Benevolent Fund proposes to invest £1,000 at 3 per cent. interest in an appropriate form, and I am quite sure you will cordially support this proposal. The Trustees hope

the investment can be arranged within their present powers: but it may be that an amendment of the rules may become necessary. I pay my tribute to those who have organised this scheme, particularly Mr. Farrer-Brown, of the Nuffield Foundation, Mr. H. S. Fothergill, Incorporated Accountant (who is the Secretary of another Benevolent Fund), and Mr. H. S. Loveday, the Assistant Secretary of the Institute's Benevolent Association, who are on the Committee, and to Mr. R. M. Branson, who has kindly represented this Fund at several meetings.

The adoption of the report and accounts was seconded by Mr. Percy Toothill, Chairman of the Trustees, and carried unanimously.

On the motion of Mr. C. Percy Barrowcliff, seconded by Mr. C. Yates Lloyd, Sir Thomas Keens, D.L., was unanimously re-elected President of the Fund. Mr. E. Ewart Pearce proposed and Mr. F. Dean seconded the re-election of the Trustees, namely: Mr. Percy Toothill, Mr. R. M. Branson, Mr. Walter Holman, Mr. R. Wilson Bartlett and Mr. E. Cassleton Elliott. The motion was carried unanimously.

The Vice-Presidents were re-elected on the motion of Mr. A. V. Hussey, seconded by Mr. Stanley Wallis. Mr. J. G. Huggins proposed and Mr. H. Basil Sheasby seconded the re-election of Mr. Arthur Henry Hughes as Hon. Auditor, with a vote of thanks for his services. The motion was carried.

Mr. G. A. Windsor proposed a cordial vote of thanks to the President, Sir Thomas Keens, for presiding. Mr. Windsor put the motion to the meeting and it was adopted by acclamation.

Fifty-sixth Annual Report of the Trustees

The Trustees have pleasure in presenting the report and accounts for the year ended December 31, 1948.

The subscriptions received in 1948 amounted to £1,824 and show a considerable increase over the amount for 1947 (£1,428). Donations, which under the rules are added to capital, amounted to £502 in 1948, compared with £776 in 1947. It is satisfactory to report that the aggregate of income was £3,004 in 1948, against £2,629 in 1947.

The trustees have made grants in 31 cases and the total of the grants distributed was £2,162. During 1948 there were new applications, but the total number of cases dealt with slightly dropped: this was due to the death of former beneficiaries and to cases in which advice was received that further help was not necessary. Among the beneficiaries were widows whose husbands lost their lives during the war and the trustees have been glad to supplement State pensions by grants from the fund, which have been mainly applied for the benefit of children. It is expected that in these cases grants will be required for several years during the period of the children's education.

The cordial thanks of the trustees are again extended to all the contributors for their continuous support. The trustees particularly acknowledge:

(*a*) the liberal contributions from the Society's South African Committees and members in South Africa;

(*b*) a gift of a debenture of the Society of £100;

(*c*) a contribution of £26 5s. from the Incorporated Accountants' Lodge (continued from year to year).

Helpful co-operation has been extended to the Trustees by local hon. secretaries in the respective Branches and District Societies.

Members of bodies of accountants in the British Dominions very kindly sent a number of food parcels for beneficiaries of the Benevolent Fund. These parcels afforded much pleasure to the recipients and the trustees express their warm thanks for these welcome gifts.

The National Corporation for the Care of Old People (connected with the Nuffield Foundation) has enlisted the co-operation of a number of professional benevolent funds with a view to establishing homes for aged members of the professional bodies concerned, who may be nominated by the respective benevolent funds. Each fund is invited to make an investment in a company limited by guarantee. The trustees welcome this initiative and, subject to the security being in conformity with the rules of the Fund, they propose to invest £1,000. This investment will permit the Benevolent Fund to nominate one resident.

Mr. Arthur H. Hughes, Incorporated Accountant, London, is the retiring hon. auditor, and offers himself for re-election.

The expenses of the Fund are limited to printing and postages. The trustees propose to send again to local Hon. Secretaries a list of contributors to the Fund; which will be available for the inspection of members of Branches and District Societies.

Particulars of Grants for Twelve Months, January 1 to December 31, 1948

	Number of Cases	Total Grants	Amounts previously given in cases where grants were renewed
		£	£
(*a*) Education and Support of Children	10	926	2,065
(*b*) Members or Former Members Suffering from Infirmity or in Straitened Circumstances ..	4	260	1,094
(*c*) Widows and Dependants of Deceased Members	17	976	3,827
	31	£2,162	£6,986

Income and Expenditure Account for the Year ended December 31, 1948

1947			1947		
£		£	£		£
59	Printing, Postages and Cheques	58	1,428	Subscriptions	1,824
2,082	Grants	2,162	313	Refund of Tax on Covenanted Subscriptions ..	272
488	Balance, being surplus for year, carried to Balance Sheet	784	888	Dividends on Investments (including Tax recovered) and Bank Interest	908
£2,629		£3,004	£2,629		£3,004

Balance Sheet, December 31, 1948

1947		£	£	1947		£	£
£	Capital Account—			£	Cash at Bank and in hands of Overseas Agents		686
21,338	Balance at December 31, 1947	22,811		449	Investments (at Cost)—		
	Add—				£10,000-3½ per cent. Conversion Stock 1961 or after	9,219	
189	Life Subscriptions	168			£1,000-4 per cent. Funding Loan, 1960-90	804	
776	Donations	502			£2,200-4 per cent. Consolidated Stock, 1957 or after	2,085	
20	Legacy	—			£2,000-2½ per cent. Treasury Stock, 1975 or after	1,899	
	Gift of Society of Incorporated Accountants' Debenture	100			£2,000-3 per cent. Defence Bonds	2,000	
488	Balance from Income and Expenditure Account 1948	784			£500-2½ per cent. Defence Bonds	500	
22,811			24,365		£1,000-3 per cent. Savings Bonds, 1960-70	1,000	
3,547	Sir James Martin Memorial Fund		3,547		£1,000-3 per cent. London County Consolidated Stock, 1920	927	
500	Edith Sendell Fund		500		£500-3 per cent. London County Consolidated Stock, 1956-61	490	
40	Sundry Creditors		42		£1,000-3 per cent. Metropolitan Water "B" Stock, 1934-2003	911	
					£204 os. 10d.-3½ per cent. Commonwealth of Australia Registered Stock, 1950-52	185	
					£208 10s.-3 per cent. New Zealand Stock, 1966-68	201	
					£174 15s.-3 per cent. British Transport Guaranteed Stock, 1978-88	247	
					£175-5 per cent. Society of Incorporated Accountants' Debentures (Gifts)	175	
					Post Office Savings Bank Deposit	2,053	
					London Trustee Savings Bank Deposits	753	
				22,049			23,449
					Sir James Martin Memorial Fund—		
					£1,000-2½ per cent. Treasury Stock, 1975 or after	966	
					£1,000-2¾ per cent. Guaranteed Stock, 1933 or after	862	
					£1,500-2½ per cent. Consolidated Stock	1,266	
					£545 16s. 4d.-2½ per cent. Annuities	453	
				3,547			3,547
					Edith Sendell Fund—		
				500	£432 os. 9d.-4 per cent. Consolidated Stock, 1957 or after		500
					(Market value of all Securities at December 31, 1948, £29,222)		
					Commissioners of Inland Revenue—		
				353	for Refund of Income Tax		372
£26,898			£28,454	£26,898			£28,454

PERCY TOOTHILL,
Chairman of the Trustees.

I have examined the above Accounts, together with the Books and Vouchers, and find the same to be correctly stated. I have also verified the Securities of the Fund.

ARTHUR H. HUGHES,
Incorporated Accountant,
Hon. Auditor.

April 20, 1949.